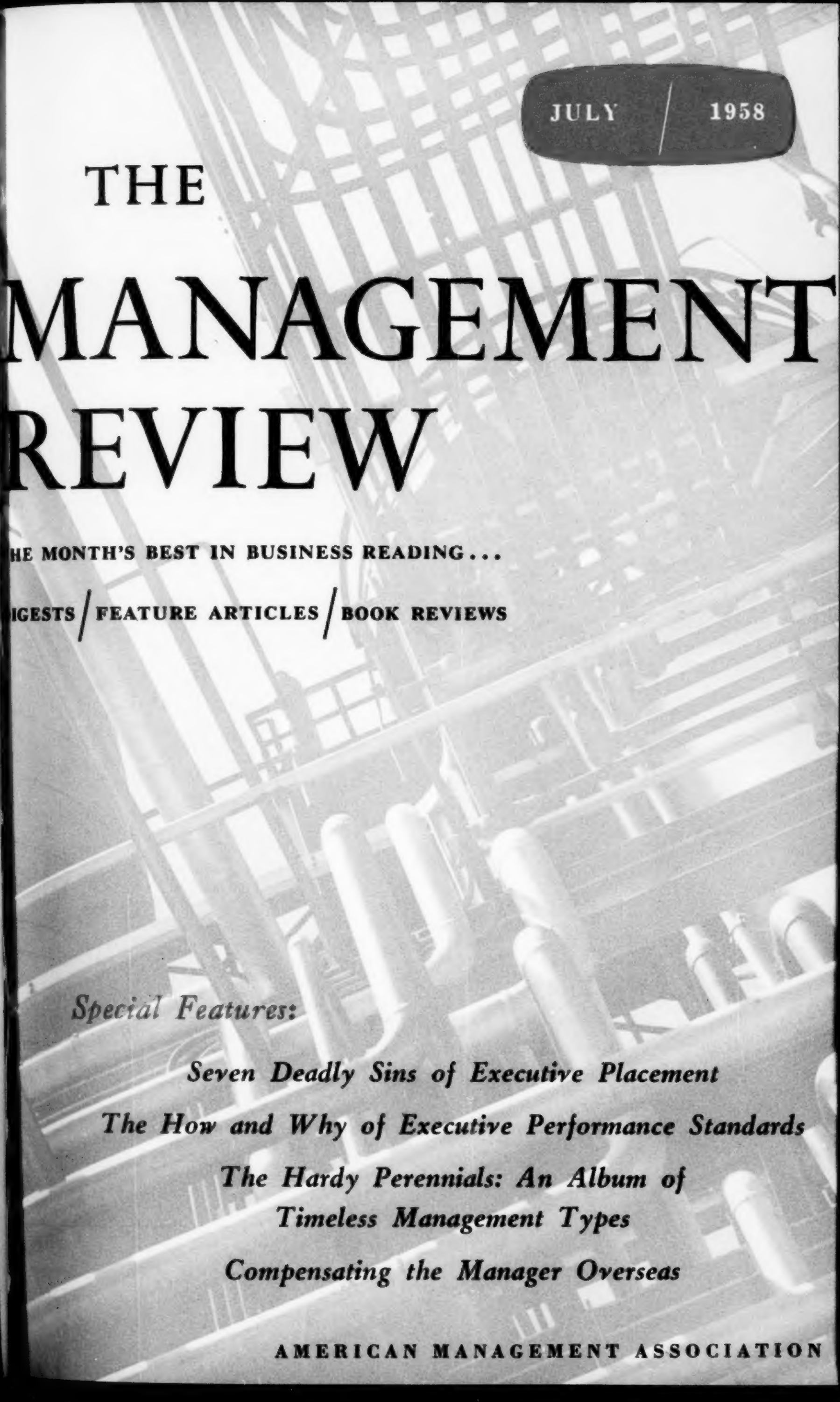


JULY / 1958

THE MANAGEMENT REVIEW

HE MONTH'S BEST IN BUSINESS READING . . .

IGESTS / FEATURE ARTICLES / BOOK REVIEWS

Special Features:

Seven Deadly Sins of Executive Placement

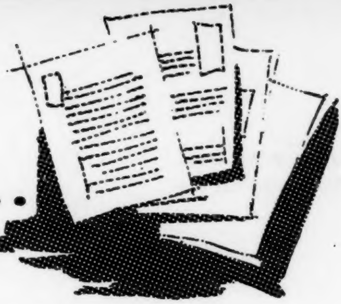
The How and Why of Executive Performance Standards

The Hardy Perennials: An Album of Timeless Management Types

Compensating the Manager Overseas

AMERICAN MANAGEMENT ASSOCIATION

in this issue . . .



- **The Search.** "Give me just a handful of good men," Andrew Carnegie once declared, "and though my plants and equipment were destroyed overnight, I could restore my business in a matter of weeks." Today, industry places the same high premium on "good men." But serious problems in matching executive skills to executive jobs still exist, and the man who might be worth his weight in gold to one company could be a poor bet for another. In this month's opening article, SAUL GELLERMAN examines some of the subtle problems that can play a critical part in the placement process.

- **Something to Shoot At.** The higher up you go on the executive job ladder, the more important it becomes to establish objective standards of executive performance. For those who still maintain that it can't be done—that you can't set up yardsticks for such intangibles as initiative and creativity—VIRGIL ROWLAND's article on page 10 provides some highly workable guides.

- **The Executive Abroad.** With more and more companies branching out overseas, the problems of compensating the executive abroad are acquiring a special timeliness. JAMES E. BOYCE's article (page 21) tells how to set up a fair and sensible pay plan with adequate incentives to induce good men to accept assignments abroad.

- **It Seems We Stood and Talked Like This . . .** Though today's executive may show less and less resemblance to his industrial forebears, management, like any other field, has its own hardy perennials. This month's cartoon feature (page 16) focuses on some classic types out of the past—but still very much with us.

—THE EDITORS

JULY 1958
Volume XLVII, No. 7

THE MANAGEMENT REVIEW

FEATURES

BUSINESS DIGESTS OF THE MONTH

Trends and perspectives

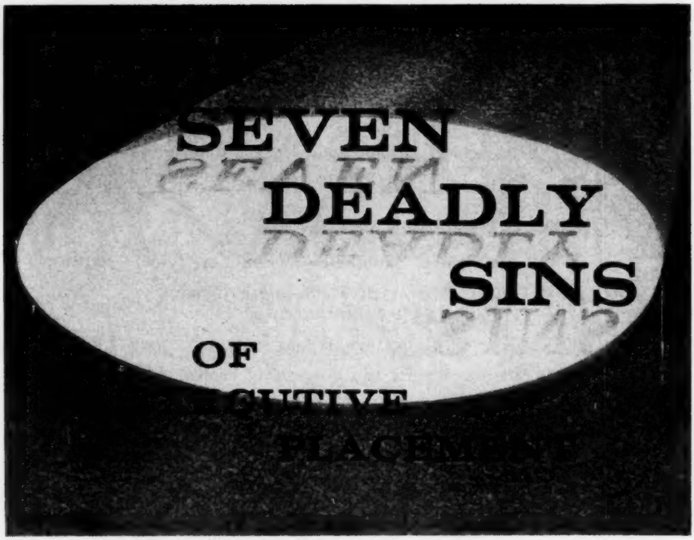
Cover photograph: A. Devaney, Inc.

THE MANAGEMENT REVIEW is published monthly by the American Management Association, Inc., at 1515 Broadway, Times Square, New York 36, N. Y. Entered as second-class matter March 26, 1925, at the Post Office at New York, N. Y., under the act of March 3, 1879. Subscriptions: $7.50 per year (non-members, $12.50). Single copies: $1.00 (non-members, $1.25). Volume XLVII, No. 7, July, 1958.

Changes of address should be forwarded to the publishers *six weeks in advance*, and postal zone numbers should be included in all addresses.

The American Management Association does not stand sponsor for views expressed by authors in articles issued in or as its publications.

An index to THE MANAGEMENT REVIEW is published annually with the December issue. The contents are also indexed in the Industrial Arts Index. THE MANAGEMENT REVIEW is microfilmed by University Microfilms, Ann Arbor, Mich.



■ *Saul W. Gellerman*
Director, Psychological Services
The Personnel Laboratory, Inc.

TECHNIQUES FOR FINDING AND EVALUATING management potential are frustrating, hard to manage, inexact, and expensive. In fact, few companies would undertake an executive selection program at all if it weren't for the inescapable fact that it is infinitely more expensive *not* to have one.

All corporate enterprises are human enterprises. Large or small, their success hinges on the courage, acumen, and luck of a relative handful of men. Men who can make the right decision at a crucial moment are rare—and men who will stand behind their decisions against heavy opposition are perhaps rarer still.

Consequently, the search for executive talent has become a major industry in itself. None of the techniques by which men are sought and evaluated has been perfected, and it is in the nature of such programs that they probably never will be. But we do know enough to avoid some of the more grievous blunders that were made earlier.

Here are seven of the most common errors committed, together with some of the insights that have helped to make executive selection a little less frustrating, less expensive, and more exact.

SIN NO. 1: CARELESS TREATMENT OF CANDIDATES

Many a selection program has gotten off to a good start, then hurt the company's prestige because of an accretion of misunderstandings and disappointments, traceable to the way in which the candidates—particularly candidates for promotion from within—are treated. All too often they are left to infer that tests, interviews, and other procedures are required by the company for its own edification. The individual, who apparently gets nothing out of it at all, may feel that he is expected to reveal things that he doesn't particularly want the company to know—especially if he doesn't get the job.

Under such circumstances, the candidate will feel understandably put upon, and we can scarcely blame him if he resorts to bending the truth a little to preserve his own ego. So one immediate disadvantage of the "mandatory" evaluation is a falling-off in the accuracy of the evaluations themselves. True, this can be offset by sufficiently subtle screening measures, but these in turn step up the costs of the program.

Gearing the program to the company's sole advantage has a subtler effect that will nearly always wreck the program in the long run: the accumulation of resentments and pent-up anger at being used or manipulated. There is no dodging the fact that being evaluated can be an uncomfortable experience for the man who is under the microscope. When enough men feel that their privacy has been rudely violated, or that they have been reduced to an anonymous pattern of holes in a punch card, their influence can be felt very directly. Adverse publicity, carried by the grapevine, will discourage many qualified applicants, both inside and outside the organization. Moreover, if enough dissatisfied "graduates" reach positions of influence in the company, the entire program may be squelched from above.

What is wrong here is not the evaluation itself, but the apparent purposes it serves. An analogy may help to make this clear. It is

quite common for young men at draft board physical examinations to feel annoyance when they are herded into a room, commanded to strip, and impersonally thumped, poked, and squinted at by a bunch of strangers. The same men, being thumped and squinted at by their family physicians in exactly the same way, feel no disturbance at all, and may well find the thumping rather reassuring.

Conferring with candidates

The same principle applies when executives are being selected. The results of the examinations and interviews are not only the objects of an intense and legitimate curiosity by the candidates, but a knowledge of them can often be of considerable benefit to them. Arranging to have these results discussed with the applicants in complete confidence places the program in an entirely different psychological light. The candidate is, in effect, proffered a free "check-up"—one that would cost him a lot of money if he undertook it at his own expense, and one that might be very useful to him. There is a further reassurance for the candidate in knowing just what higher management knows about him. It pays, in other words, to treat executive applicants like adults, and let them know what's going on.

The conference should not, ordinarily, be used as a transparent "preparation for the blow" of rejection; this would create, in many cases, needless apprehension, in addition to raising the specter of some kind of personal inadequacy in the candidate's mind. Rather, the conference should aim at an objective and general view of the results, with emphasis on constructive steps the individual might take to achieve a more efficient use of his capabilities. This is not only valuable in itself, but it makes a positive experience of what might otherwise have been a humiliating one.

Rejecting candidates

The manner in which the rejected candidates are informed of the outcome can have a decided influence. It can impair the morale of unsuccessful candidates from within the company and anger outside applicants, reflecting adversely on the company's relations with a vitally important segment of the public. Too often, candidates

are either left in the dark as to why they weren't appointed—free, in other words, to suspect the worst—or they are told rather summarily that they "failed" in some phase of the evaluation. It is easy to blame a test or some other impersonal device when the news has to be broken to a disappointed candidate, but such an alibi will frequently puncture his ego in a tender spot. When the wound heals, it will surround itself with protective "scar tissue"—bitterness and distrust of tests, testers, and the company that was the cause of it all.

The first consideration in handling any executive turndown should always be the preservation of the man's dignity. The primary safeguard, of course, is in not allowing his expectations to be artificially inflated in the first place—the less he is counting on the job, the easier it is for him to shrug it off when he doesn't get it.

It's always wise to give the candidate to understand that he is in competition with others. Losing out to a better-qualified individual is a blow that most men can roll with easily—much more so, at any rate, than having some real or imagined defect exposed by examination.

SIN NO. 2: OVERDEPENDENCE ON EXPERT OPINIONS

The behavior of a human being is notoriously difficult to anticipate. Despite advances in psychological knowledge, there are still no cut-and-dried rules by which the quality of a man's performance may be anticipated, and some educated guesswork is clearly required. For this purpose, we have experts—psychologists, consultants, call them what you will—who specialize in "drawing sweeping conclusions from insufficient evidence" and (hopefully) being right more often than they're wrong.

To do this consistently is no mean feat, and the really good personnel expert is therefore regarded with a certain amount of awe. Unfortunately, this awe is sometimes so complete that the executive, in effect, abdicates his decision-making responsibility. This has been known to lead, in practice, to a loss of management's prerogative to select its own members and a concentration of power in the hands of consultants who—however worthy—are not responsible to the company's stockholders or directors.

There is widespread misunderstanding of how "experts" work, partly because their methods are complex, and partly because many of them find it expedient to allow an aura of mystery to grow around their techniques. Basically, the expert's job is to help the executive to hedge his bets by providing certain kinds of specialized information, and by making an honest guess at what this information probably means. In effect, the expert and the executive go through the same kind of process—weighing facts and trying to anticipate their future effects—but there is this fundamental difference: The expert has *fewer* facts at his disposal than does management. The expert takes a close look at part of the picture—probably a very important part—but only management is in a position to see the *whole* picture, simply because the whole picture includes the tastes and aspirations of management itself. The man who looks good on psychological tests is not necessarily the best choice for a particular executive position.

Although there are elements of a sound executive selection program that will be beyond the training of most line executives, the final decision must rest with management, and that final authority should not be allowed to dwindle into a mere rubber stamp.

SIN NO. 3: OVERESTIMATING OR MISJUDGING JOB REQUIREMENTS

Two main kinds of errors can put a serious crimp in the business of executive selection even before it starts. The first involves the job description itself, which can be heroically demanding. When management is asked to describe the personal characteristics that an acceptable executive candidate would have to possess, the resulting list of traits often seems to add up to "God Almighty, with a few improvements." And while most corporate officers hasten to add that they're prepared to compromise a bit because they realize that "no one is perfect," there is still a noticeable tendency to hesitate over less-than-perfect candidates.

When a successor to an executive is being chosen, it is natural enough to seek a man who is not likely to perpetuate some of his predecessor's shortcomings. Similarly, when an executive is being upgraded and must help in the selection of someone to take over

his old job, he may insist with pardonable pride that some very sterling qualities are needed to fill his shoes. Or management may lack first-hand experience with a particular assignment and assume that it's a lot tougher than it really is. Any of these situations can lead, in effect, to looking for a general to do a captain's job. But most generals won't be interested in the job—certainly not at the captain's pay—and the hunt for the right man is handicapped from the start by being headed into the wrong kind of hunting ground.

It is necessary, therefore, to take a hard, cold look at the actual job to be filled and to differentiate between traits that are essential and those that are ideal—or even unnecessary.

Misjudging job requirements

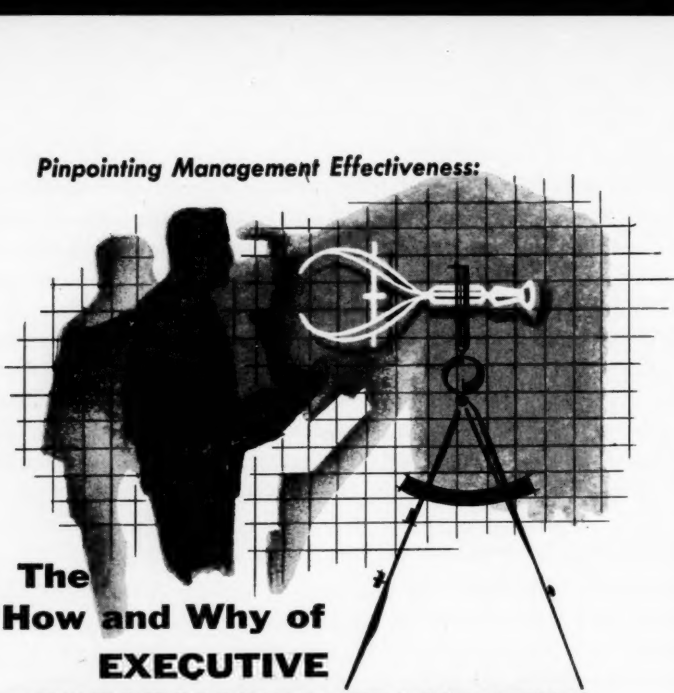
The second error in this category is ruling out capable candidates by insisting on the wrong kinds of qualifications for the job. Many an executive search sets off in the wrong direction because of stereotyped ideas of the qualities or talents required. The less first-hand and contemporary knowledge one has of a job, the more is he likely to form his ideas of it in terms of what is actually hearsay, guesswork, or logical deductions from untrue premises. A few days of first-hand observation of the executive actually performing the duties of the position will provide a much sharper understanding of the qualifications needed in a suitable candidate. Where this isn't feasible, detailed conversations with men who know the problems of the job intimately can be of great help.

An entertaining illustration of this principle does not involve an executive, but it should make the point. A consulting firm was retained to help a pharmaceutical house select medical detail men, who call on physicians to acquaint them with the technical properties of the ethical drugs made by their companies and to encourage them to prescribe these products where indicated. After spending a few unsuccessful months attempting to find good men for the position, a staff member of the consulting firm was sent to spend a day in the field with the best detailer the client company had.

He returned from the trip bewildered, because some of his most cherished notions of effective and dynamic salesmanship had gone

(*Continued on page* 73)

Pinpointing Management Effectiveness:



The How and Why of EXECUTIVE PERFORMANCE STANDARDS

■ *Virgil K. Rowland*
Assistant Secretary and Assistant Treasurer
The Detroit Edison Company

THE IDEA OF ESTABLISHING STANDARDS by which job performance can be measured is not a new one, but until fairly recently few companies have made any attempt to determine standards for their management group. Because of the complexity and the intangible nature of the executive's work, most managers have apparently felt that their jobs would not lend themselves to accurate measurement.

Managers frequently operate on the basis of supposition. A boss assumes that a subordinate understands what he is expected to do and how well it must be done. A subordinate may know that he is expected to do "his best," but often he has nothing more definite or concrete than this to guide him. When improved performance is desired, raises in pay are frequently used as an incentive, but this method seldom results in improvement; on the

contrary, giving a man more money suggests approval of his present performance. Management ought to be able to state with precision —in writing—just how well it expects an executive to do his job.

OBSTACLES TO STANDARDS DEVELOPMENT

Probably one of the most important reasons why standards of performance for managers are seldom to be found, even in the most forward-looking and progressive of companies, is the resistance of the managers themselves. Many executives believe—and the feeling is probably more pronounced as we go higher on the management ladder—that their responsibilities are so complicated, their duties so intangible, their performance so dependent on personal leadership abilities, that their jobs do not lend themselves to "standardization." Associating performance standards with production workers, they bridle at the affront to their prestige that is implied by the suggestion that managerial performance can also be measured.

This attitude is understandable, but it is based on a misconception of what standards are and what they are designed to accomplish. To set standards of performance for a management position is not to "standardize" it; there is no attempt to tell the executive *how* to do his job, but rather *how well* it should be done. Standards are not rules, but goals that enable the manager himself, as well as his superior, to determine when he is actually doing the job for which he is responsible. As such, they are invaluable, and to no one as much as to the executive himself.

Sometimes an executive hesitates to introduce managerial standards of performance because of a personal feeling of uncertainty. Although he believes that he is performing his own job satisfactorily, he really has no way of being certain, and he fears that discussion with his subordinates will reveal to them his unsure grasp of his own job as well as theirs. A man like this *needs* performance standards—to give him a realistic picture of his job, to show him when his performance is what it should be, and to enable him to evaluate the performance of his subordinates, who are undoubtedly much more confused and uncertain than he.

Lack of time is another impediment to the establishment of performance standards for managers. Many managers, who must

attend meetings, review materials, go to conferences, meet with outsiders, and plan and organize their work, feel that they do not have time to set standards of managerial performance, or to do any of the many other "extras" that are supposed to be helpful to a manager in doing a better job. Because schedules are full and time is always at a premium, they convince themselves that improvement within their present radius of work is the best method. They do not realize that time becomes more available and that work is better done when managers learn to delegate certain aspects of their work to subordinates; when they train their subordinates to perform more adequately, to make decisions, to use initiative; and when they foresee the needs of the future and prepare for them.

One of the most common reasons for postponed acceptance of standards is a lack of appreciation of their value. According to Dun & Bradstreet figures, more than 90 per cent of all business failures can be attributed to one cause: incompetent management. When management does not make full use of the many management tools that have been developed, inefficiency, confusion, and even failure are inevitable. The concept of standards of managerial performance is one of these vital tools—a tool that can go far to develop a better understanding of objectives, a clearer concept of satisfactory performance, and, consequently, a stronger and more effectively functioning management group.

TYPES OF STANDARDS

Standards for rank-and-file employees are well established in many companies. Production workers are told the quantity of work they are expected to perform, the quality that must be maintained, and the number of errors that can be tolerated. Management recognizes these standards as effective tools—a necessary part of the employees' daily work equipment, without which waste and inefficiencies would inevitably result.

The job of management is certainly far more extensive than any rank-and-file employee's job. The major responsibilities of a manager's job have no parallels in the jobs of production employees. The manager must, of course, be concerned with a quantity of work, but his concern is not limited to the work of production or schedules. Because he is not actually engaged in production, but

rather oversees what is done, his quantity-mindedness must pertain also to the managerial skills or methods he uses in efficiently and economically obtaining the required quantity of work. These are the main parts of his responsibility, and he should have a clear, detailed understanding of the performance expected in each.

It should be recognized, of course, that the standards that pertain to production workers might be called "tangible," for they are, generally speaking, routine and measurable. The standards that apply to managerial persons, on the other hand, may seem vague, evasive, and impractical—but only because they are more difficult to determine.

SETTING STANDARDS

Intangible aspects of performance can become factual to subordinate managers, however, when their superiors discuss with them how well they are expected to perform each segment of their jobs in order to have at least satisfactory performance. The two levels of management—superior and subordinate—must understand and agree upon what constitutes satisfactory performance.

Standards of performance may be arrived at through group or individual meetings; both have their proper place and time. Most organizations use the group approach first, because it frequently happens that only after a company has been in operation for some time does management see the need for increasing company profits by helping the managers to do a better job. Since the managers have been on the job for some time, the group method may be used, for each of them has an understanding of his job.

In the group method, the superior discusses with his subordinate managers the standards that will constitute acceptable performance in the managerial functions common to each of their jobs. Generally, a separate meeting is held for each factor. This discussion requires major participation and contribution by the subordinate managers, who must agree unanimously about what is included in each aspect of their jobs.

In the area of communications, for instance, a group might decide that communication on their jobs means the process of interchanging information, ideas, and opinions so that the section can be operated most effectively. Once such an understanding is

established, a discussion can be held on the results in that area that will indicate satisfactory performance. The items might be listed in this form:

Performance in the area of communication is satisfactory when:

1. The superior is kept appropriately informed on:
   a. status of work
   b. personnel matters
   c. performance of subordinates
   d. departmental objectives and future plans
   e. the superintendent's own personal matters affecting the work situation.
2. There is evidence of voluntary and free consultation or contact between the superintendent and his subordinates and between the superintendent and his superior.
3. The supervisors understand and participate in the formulation of departmental policies, broad objectives, and future plans.
4. There is evidence of harmonious relations with other departments.
5. There is evidence that the superintendent has stimulated his supervisors to maintain similar standards of communication.

Separate evidence items are often listed specifically under numbers 2, 3, 4, and 5. However, depending on the knowledge or experience of the group, this listing may be omitted after each point has been thoroughly discussed by the group.

In the area of cost control, the standards of satisfactory performance might be stated in this way:

Performance in the area of cost controlling is satisfactory when:

1. A realistic operating expense estimate is prepared, with participation of supervisors, which shows evidence of:
   a. a thorough analysis of previous years' expenditures,
   b. performance records,
   c. present methods and procedures.
   d. consideration of future work requirements:
      (1) volume,
      (2) personnel,
      (3) supplies,
      (4) equipment,
      (5) contemplated changes in methods and procedures.
2. Significant variances from the estimate are analyzed and adequately explained.
3. Current operations are continually reviewed to make certain that they are being performed as efficiently as possible.
4. Constant attention is given to possible improvements in methods, equipment, and policies.
5. There is evidence that reasonable cost standards or measurements are established and reviewed for improvement.

Standards for a management job are not complete until every factor has been thoroughly analyzed. Some of the factors for which standards are usually established include selecting employees, controlling costs, planning, assigning work, training and developing employees, meeting schedules, and, of course, getting results—qualitatively and quantitatively.

Once standards of performance have been appropriately set by a group, new managers can set their own standards through individual meetings with their immediate superior. *There is little value in a manager's attempting to apply someone else's standards to the job he is performing.* For one thing, standards taken from one man generally have little meaning to another, except as an indication that standards for that job can be established. Moreover, when a new man adopts the standards set by a predecessor, he is denied the opportunity of thinking through his job and seeing it in a light in which he might never have viewed it before.

BENEFITS FROM STANDARDS

Many of the benefits of managerial standards of performance result from the fact that subordinate managers discuss with their immediate superior *how well* they are expected to perform their job. This discussion focuses attention on all the important phases of the job and improves understanding. Managers better understand the broader aspects and basic principles of their jobs, and, because standards define and clarify individual responsibilities, they see more clearly what is expected of them. This new understanding raises the level of performance of both top and subordinate management.

Top managers are better able to supervise and guide subordinate managers because the discussion points up areas where improvement or additional development of individuals is essential. Subordinate managers find the same is true for their subordinate employees. And standards give each manager a basis for measuring his own accomplishments and appraising his progress.

The time when an executive could operate merely "by guess and by gosh" is past. Many members of management are realizing that the establishment of standards for each management job is becoming a necessity in the increasingly complex business world of today.

THE HARDY PERENNIALS

An Album of Timeless Management Types

CERTAIN EXECUTIVE TYPES never seem to change, and this album, drawn from authentic nineteenth-century sources, bears eloquent witness to the durability of some of the more exasperating varieties . . .

Good Time Charlie. Since he discovered that the expense account is the key to gracious living and easy sales, his reluctant guests have learned to eat, drink—and be wary. Knows every head waiter in town by name, though he has only a nodding acquaintance with the business.

Crusader. Every Monday morning, this tireless zealot bounds in with a glorious new project for the department to struggle with. His overworked staff strongly suspects that he makes his family take cold showers and do setting-up exercises.

Yes Man. Fairly glowing with childlike faith in the omniscience of his boss, he finds no idea from higher management too bizarre to merit his instant approval. (Why is he wearing that silly hat? Probably because someone told him to.)

Good Sport. He really isn't very good at this sort of thing, but he's reluctantly decided that the only way to win the respect and affection of his subordinates is to act like one of the boys at office parties. Maybe he'd give it up if he realized that it makes them more uncomfortable than he is.

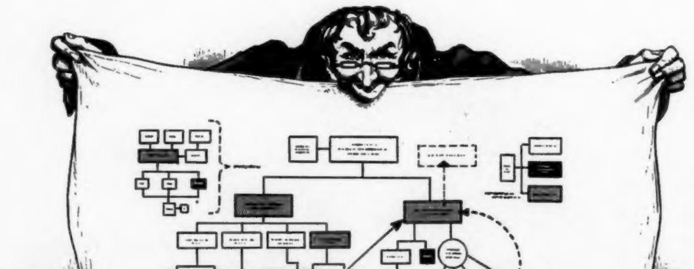
Self-Made Woman. With the firm since its founding, she now holds undisputed sway over the mimeograph department and typing pool. The man who alienates this last of the divine-right monarchs may find his pet project bottlenecked in her domain for months.

Lothario. For the new employee (female), the attentions of this office gallant have almost become part of the induction process. He's really in his element at the company picnic, but his modus operandi around the water cooler will also bear watching.

Grievance Chairman. Injustices seem to spring up on all sides of this unofficial office peacemaker and Good Samaritan. Gossip is his meat, and he's a listener par excellence—provided it's about a gripe.

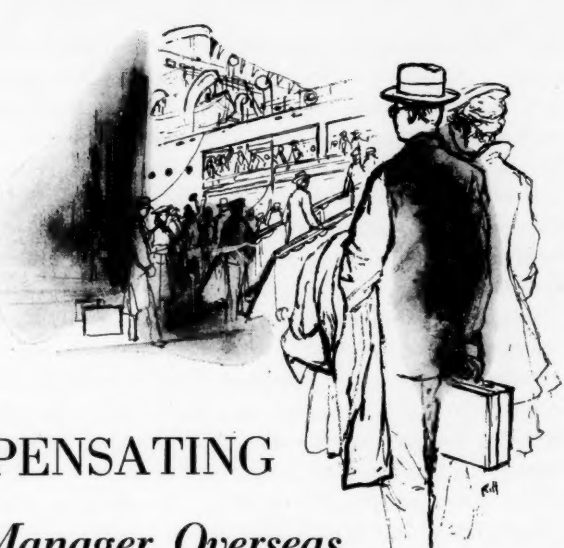
Jack of All Trades. This staff expert is so versatile and dynamic that he doesn't have time to do the job he was hired for—but who remembers what that was, anyway?

Father Time. Though often puzzled by the complexities of newfangled methods, this member of the Old Guard is still at home with the time clock—and his triumphant croak as he pounces on a tardy clerk can turn strong men to stone.



Master Planner. Twice a year, this senior (and not very busy) vice president emerges from his carpeted cloister with his latest plan for reorganizing everything. It may take four department heads the better part of a week to convince him—gently, of course—that there isn't a workable idea in the whole scheme.

■ R. F. GUDER



COMPENSATING *the Manager Overseas*

■ *James E. Boyce*
President, Associates for International Research, Inc.
Cambridge, Massachusetts

In a period when all costs are being carefully scrutinized, some companies are finding that they can realize considerable savings by revamping and modernizing their policies on the compensation of American personnel overseas.

Determining fair and equitable compensation for executives sent abroad to manage some aspect of the company's foreign operations has been a persistent and troublesome problem. In most cases, these are experienced men—frequently, men who have been with the company for some time and are given the foreign assignment as part of their training for further advancement. In any case, they are valued employees whom their company wishes to retain, and providing them with satisfactory compensation thus becomes of vital importance.

Since World War II, a great many companies have gone into foreign operations for the first time, and more are planning to do

so. These companies have often based their overseas compensation policies on the experience of such old-time operators in the foreign field as the oil companies, on their own domestic policies, and on more or less educated guesses. Their questioning regarding policies for overseas compensation seems to have raised some uncertainties in the minds of the old hands, if they didn't exist already, with the result that it is rare to find an executive who is completely satisfied with his company's policies in managerial compensation abroad.

There are innumerable variations in compensation policies from company to company, but nearly all seem to be based on two assumptions: first, the employee must be paid a premium as an incentive to lure him abroad, and, second, he must be "kept whole" by being compensated for the higher costs of living and working overseas. In addition to "keeping the employee whole" and paying him a premium for his overseas service, many companies have certain fringe benefits for their overseas employees.

Thus, most of the problems regarding managerial compensation abroad can be considered in one of these three categories: (1) the premium for overseas service; (2) overseas allowances paid to balance off excess costs of living abroad, and (3) special fringe benefits. In practice, some companies pay a single salary, adjusted to include such elements, while others pay a base salary plus one or more separately calculated allowances. In a recent survey of 67 companies engaged in overseas operations, 18 used one allowance and 31 more than one. The latter category included many larger firms and accounted for more than three-quarters of the overseas managers covered in the survey.*

THE OVERSEAS PREMIUM

Nearly all American managerial personnel abroad are paid an overseas premium (or a premium element is considered in establishing their salaries). Such premiums are usually 20, 25, or 30 per cent of base salary, with 25 per cent being the most popular. Since some companies take into consideration other factors, notably

* Elizabeth R. Floyd, *Compensating American Managers Abroad*, Research Study Number 81, American Management Association, Inc., 1958.

the tax advantage in certain foreign countries, the effective range in premiums may actually be much greater.

These premiums are presumably paid to compensate the employee for the sacrifice involved in living abroad and as an incentive to accept overseas assignment. It is not clear how the concept of such a premium originated, but it seems likely that it is the heritage of nineteenth- and early twentieth-century American business experience abroad. At that time, the few American companies with overseas operations sent their personnel to foreign areas where a definite hardship was involved—as, for example, the Far East or, more frequently, the banana republics of the Caribbean. (Significantly, one of the old-time American operators in the Caribbean area still refers to its premium as a "tropical allowance".) However the practice originated, most companies pay the premium whether the employee is sent to London, to Paris, or to an out-of-the-way post in the tropics.

Asked why their company pays such a premium, some managers will explain it as a general practice, which they must follow or be left behind by the competition. Others will call it a necessary incentive to assure attracting the right sort of personnel to overseas operations. Still others will relate the premium to presumed greater responsibilities of overseas assignments, or to the longer hours that are customary on many foreign assignments, since the same job may involve more in a foreign area. But many of the same managers will also indicate that these factors are taken into consideration in setting overseas salaries, and that an employee is usually upgraded on being transferred to a foreign post. In short, there seems to be considerable confusion as to just why overseas premiums *are* paid, and a good many persons concerned with overseas operations wonder if they are really necessary.

Are premiums necessary?

Part of this confusion is evidently due to sloppy administration. Rather than defining just what increased responsibilities are involved in the overseas assignment or working out a means of overtime compensation, many companies lump all such items with the incentive payment as an overseas premium. If, instead, these considerations were taken into account when establishing the over-

seas salary, the picture would be a good bit clearer. With the incentive element isolated, management would be in a better position to take an overdue look at the overseas premium and attempt to decide whether it is really necessary or whether the real problem lies in the recruitment and training of overseas personnel.

As long as the custom of paying such a premium exists—and it may well be necessary, or at least extremely difficult to change—it would seem logical to consider it purely as an incentive payment. If this were done, then it would also seem desirable not to apply the same percentage of U.S. base salary indiscriminately to all overseas posts, but to establish the premium on a scale that would take into account the rigors of climate, the political and social atmosphere, and any other considerations that make life easier or more difficult for the American employee and his family. The tax differential between U.S. and foreign taxes could also be considered in establishing the premium—adding to the premium where foreign taxes were higher than in the U.S. and subtracting where they were less. However, it is probably better to deal with the problem of tax differentials in other ways, some of which are discussed later. The fact that some companies pay the employee for taxes in excess of those he would pay in the U.S. and ignore any advantage he may have where taxes are less, considering this advantage loosely as part of the premium package, may result in effective premiums in excess of 50 per cent of base salary in countries where tax rates are low.

THE OVERSEAS ALLOWANCES

The principle of overseas allowances is to compensate the employee for the higher costs involved in working and living abroad. To the uninitiated, accustomed to thinking of the United States as having the highest standard of living in the world and thus the highest costs, it may seem strange that the living costs could be higher for an American abroad than at home. Actually, however, such allowances are paid by American companies to their employees in nearly every country in which they operate.

The high costs of living overseas are partly due to the inclination of the American employee to transplant to the greatest extent possible his "American way of life" to the foreign setting. Since

this may mean relying on imported foods or living in expensive housing, the costs go up. Moreover, many companies feel that their representatives abroad should maintain positions reflecting the importance of the firm. Thus, allowances ostensibly designed to "keep the employee whole" may, in fact, provide for a considerably higher level of living than he enjoyed in the United States.

Several allowances are typically paid in compensating the overseas employee for his higher costs in living abroad. The survey mentioned above found that an average of six separate allowances were paid by the 31 companies using multiple allowances. Most common are cost-of-living allowances; education allowances, to pay for the tuition of children in private schools where public schooling is not available or is below par; automobile allowances; housing allowances; social and/or professional club allowances; language training allowances; and medical allowances. Of these, the cost-of-living allowances are the most difficult to establish and ordinarily involve the largest sums.

Cost-of-living allowances

The most common means of determining an appropriate cost-of-living allowance is to use a cost-of-living index that compares the living costs of an American in a foreign city with similar costs in a U.S. city. Most companies rely directly or indirectly on the local index prepared by the Department of State, making various modifications to fit company policies or experience. An increasing number, however, are finding it more satisfactory to use their own indexing system, or one developed and maintained for them by an outside research organization.

Whatever the source of the index, the process involved in cross-comparing living costs between an American and a foreign city is essentially the same. It consists of establishing an index for an American family of given size and income level for the two locations, selecting appropriate sampling items to price, and comparing the weighted prices. In greater detail, the steps are these:

1. The first step is to define the American for whom the cost of living is to be calculated. Obviously, he should be as representative as possible of the group of employees for whom the index is to be used. Unless there is too great a salary spread between

members of the group, an average salary and average family size is satisfactory, although cost is the only limitation on being more precise by developing indices for each salary range involved. For purposes of illustration, let us assume an average employee with a four-person family (man, wife, and two children) living in New York on a salary of $9,600 per year.

2. A budget must be constructed for this average family, including the various categories of expenditures (such as food) and the various subcategories (meat, vegetables, fruit, etc.) that make up the total of family expenditures. A weight is then given to each category and subcategory to indicate its relative importance in the total budget. To accomplish this, the index-maker must rely either on previous governmental or private research or undertake a study on his own. The latter course would be too time-consuming and expensive for most companies. Fortunately, however, there is a considerable body of data available to assist in the process. Once this step is completed, the U.S. side of the index is established, since both the types of expenditures and their relative weighting with respect to the total are known.

3. A similar process must be undertaken for the foreign city, where the American family will obviously have a different pattern of expenditures. Certain foods are not available, for example, servants are plentiful, and more entertaining is done. In a number of ways, the difference in the way of living in the foreign city will be reflected in the pattern of family expenditures.

4. Once the expenditure category and subcategory weights have been established for both the U.S. and the foreign location, sampling items from these categories are selected for comparative pricing. After the pricing data are collected, a price ratio is computed, item by item. This ratio is then applied against the weightings to produce an index figure, which indicates the percentage by which the foreign city is more or less expensive than the American city with which it has been compared. Thus, a foreign location index figure of 130 means that this city is 30 per cent more expensive than New York for the average employee. To compensate for these excess costs, he should receive an additional $240 per month —30 per cent of his salary.

(*Continued on page* 79)

THE NEGLECTED BOARD OF DIRECTORS

By E. Everett Smith

Condensed from Harvard Business Review

One of management's least-used assets—the board of directors—is in urgent need of revitalizing if it is to be effective as a valuable management resource.

Under the law, the board of directors alone has all the power in the corporation. It can delegate to management the implementation of as much responsibility and authority as it sees fit, but it cannot avoid ultimate responsibility and accountability to the stockholders.

Unfortunately, however, in most companies the board has become more and more a legal fiction in practice. Its role as a vital organ of the business has deteriorated, and in many cases it has been deposed by operating management.

The first big problem is a real lack of recognition in management circles of the proper role of the board and the tremendous contribution it can make to the success of the business. Perhaps the growing ranks of professional managers have been so preoccupied with the necessity of developing new management techniques and with the pressures of day-to-day operating problems that they have not had time to recognize the need for and unique value of the board.

It is true that in periods of crisis most boards ultimately face up to their responsibilities. In most cases, however, the board takes action only after much harm has been done to the enterprise—harm that could have been avoided with alert, aggressive action.

The second basic problem lies in this fact: For all practical purposes, the board is a creature of the chief executive. He alone can structure it in terms of his attitude toward its

function, the types of problems brought before it, and the manner in which material is presented to it. As a practical matter, he can, although not always without difficulty, change the make-up of the board and select new members.

Many chief executives are not really convinced they want a strong and independent group of directors. After all, the chief executive has fought long and hard to reach his position of power. Is it not normal and natural for him to tend to avoid critical review of his stewardship?

Also, it is to be expected that he should regard outsiders, however capable, as being inadequately informed about company problems and therefore not really qualified to direct his operating team. And how is he likely to feel about the immense time demands involved in keeping directors well informed about company policies, plans, and procedures?

Consciously or unconsciously, therefore, the chief executive generally will look for a rubber-stamp board. He naturally supports those who want to save time by using the operating executives who already know about the programs and policies that must be approved, and thus do not require detailed briefing.

Is it therefore futile to tackle this problem? Why should a chief executive, faced with all these difficulties and conflicts, attempt to construct an independent group over which he will have relatively little control and to whom he will be responsible? One reason is the deep drive of executives to seek ways of improving all phases of management. This drive has now focused belatedly on the board.

Moreover, there is a growing awareness that in the long term the corporate system as we know it depends for its existence on public confidence. If our corporations are not well run in the total sense of having a good harmonization of all the interests involved, the public will not continue to believe that they are functioning in the general public interest. And if that day comes, the politicians will be only too ready to find a different way of handling things.

In improving current board performance, the first task is to identify areas in which the average board fails to fulfill its basic purpose. Weaknesses in the board only become apparent when a company falls from competitive grace and major problems come to the surface. Perhaps we can spotlight board failings by looking at some common features of companies that are in poor health.

One such feature is that the weaknesses and condition of the enterprise are clearly evident to the trade—customers, competitors—and even to people within the organization long before they are faced by the board. This suggests that the board is not an independent group but is dominated by the chief executive or by officer-employees.

A second common aspect is the apparent failure on the part of the board to really understand the key profit-making factors in the industry and evaluate the company in terms of these factors. For example, the important factors to focus on in the chemical industry are entirely different from those, say, in the automobile industry. Yet frequently

boards are supplied with routine operating statements that do not pinpoint the key elements controlling the company's success. In such cases it is not realistic to expect the board to concentrate on the vital matters that spell success for the company, since it does not have the information that enables it to judge.

A third common aspect of declining companies might be called "ingrownness." It has many different forms, such as the lack of cross-fertilization of ideas or the absence of new ideas and failure to utilize new management techniques, but it generally results from long association of people who think alike. The worst thing about "ingrownness" is that younger key executives brought up in this environment have no background of experience that enables them to compare their manner of operating with progressive competition. Consequently, they develop the same attitudes, pass them along in time to their juniors—and management is in a vicious circle.

The question now is: What can be done by the chief executive who wants to create an effective board and make real use of it?

The first and basic step for the chief executive is to develop clear convictions about the board's responsibilities and the manner in which he believes they can be carried out. He should also think through the functions of the various committees of the board—particularly the executive committee, if there is one, and its relationship to the operating management.

One approach is to define the functions that can best be performed by the board and then eliminate functions currently performed which duplicate the area of operating management's responsibility. For example, if the chief executive believes that the board is essentially responsible for the over-all welfare and continuity of the business, as distinct from day-to-day operating responsibilities, then he should carefully screen out all matters that do not concern either long-range objectives or key profit areas.

At the same time, the chief executive should review the agenda and material coming before the board and eliminate as much routine and irrelevant data as possible. Nothing is more deadening to a board member than to sit through routine drudgery.

What are the most important kinds of information that the board needs to perform its function properly? Most businessmen would probably agree that, as a general proposition, the board of a multidivision company should review the record of the whole organization in much the same way as a good management team reviews the accomplishments of its divisional organization. However, there is a disturbing disparity between the standards of performance and measurement criteria used by a well-managed multidivision company and those supplied to the average board. The company executives are usually in a far better position to appraise and evaluate division performance accurately.

If we are not to treat the board as an impotent second-class citizen, we must develop specific criteria that will really identify in each segment the key factors that control profits

and the general health of the business.

For example, a research-centered company needs criteria to measure the effectiveness of its scientific and engineering activities. The directors in one such company have found it desirable to set up an outside scientific review "board" that meets periodically during the year to review the entire research program, suggests areas deserving more concentration, and indicates what projects do not seem fruitful in its opinion.

What about the problem of recruiting and compensating really valuable outside directors?

The basic approach should be the same as that to the problem of recruiting top members of operating management. To begin with, the chief executive should draw up the specifications for the type of man he wants and then go on an intelligent man hunt, using all resources to find him and to make the position attractive. He should be especially careful to avoid using personal friendship as a criteria or recruiting on a *quid pro quo* basis.

Perhaps the most effective inducement he can offer is to restructure the board so that it deals with important long-term problems. For one thing, they are stimulating. For another, a director can get ideas from discussing them that he can carry back to his own business. Finally, while a scrutiny of key problem areas demands a high degree of perceptiveness and good judgment, it is not as burdensome and does not involve the same time pressures as an examination of the minutiae of operating statements and short-term developments.

One stumbling block commonly cited is the difficulty of adequately compensating a successful executive for board service. However, is there any rule that says all board members should receive the same stipend? Each man approached has a different fiscal and tax status, so why not gear the proposition to suit his particular requirements? With a flexible and attractive compensation policy, the chief executive has a better chance of landing a topnotch man on his board early in his search. This makes it easier to get another good man, then still easier to get another, and so on—it snowballs.

There are no pat solutions to the numerous difficulties and problems of making the board of directors effective. The most fruitful approach is not to try to seek the ultimate answer, but to roll up our sleeves and start making improvements in the present apparatus. Perhaps the very first step is simply to get management people talking about the problem and interested enough to begin to work out methods of improvement in their own enterprises. ♦

THE OBJECTIVES of education and industry are identical. Both are interested in good citizenship, in serving society, in a better life—and both firmly believe in freedom.

—H. L. Donovan

It may seem like a good idea to wield the cost-cutting axe on "nonproductive" areas of the business, but this approach can be the most expensive in the end . . .

Cost Control: Look Before You Lop

Condensed from Acme Reporter

BUSINESS CAN ILL AFFORD the carrying charges of excess baggage at any time, and with today's tightening squeeze on profits, generally uncertain conditions, and rising overheads, it is doubly important for managers to scrutinize their operations. But where can a businessman look for this excess? What parts of his organization are particularly vulnerable to a cost-cutter's surgery?

The natural temptation may be to say "staff." Many executives embrace the idea that the so-called "nonproductive" parts of a business are frills which build up overhead and yet render service which is at best unmeasurable and possibly even useless. The fact is, however, we may have moved into a period in which the actual production of goods is the least of our worries and the planning and research commonly associated with staff may prove to be the decisive ingredient needed to give a company a competitive edge.

Furthermore, some staff functions like training, public relations, and internal communications used to be considered peripheral but have now become expected by employees and public alike. Whatever the temper of economic times, the community is going to insist that business leaders be responsible citizens.

This is not to say that there is no waste in endeavors of this kind. Far from it; in this new kind of activity for business, there are probably more soft spots than in other, longer-established company functions. But the day has passed when management could solve its overhead problems the easy way—by using the axe and simply slashing those programs which did not relate directly and immediately to the production of the goods or services on which its survival depended.

The temptation to handle the issue by direct attack is heightened by the postwar expansion of overhead. With high-speed computers, for instance, have come sizable bills for equipment, training, personnel, and building renovation. The same is true of automation, of course; costs that once were variable have now become fixed at a high level. Finally, as we move in the direction of supplemen-

Acme Reporter (1958 Series, No. 1), Association of Consulting Engineers.

tary unemployment benefits, pensions, and other fringe benefits that tend to lock personnel into a company, labor too is becoming more of a fixed item. Thus businessmen are faced with twin pressures: rising overhead and narrowing areas for large-scale reductions. By the same token, managers cannot succumb to the temptation of a simple and arbitrary across-the-board cut, which will slice too little fat out of some departments and needed muscle out of others.

If the executive cannot solve his excess cost problem by wiping out entire chunks of his organization, slicing variable costs, or making across-the-board cuts, how can he go about it?

Basically, it comes down to a genuinely fresh look at all company practices. It means a careful scrutiny of purchasing practices, inventory control, supervision, direct and indirect cost trends, personnel assignments. Businessmen should ask themselves these questions: "Is this the best way to do this job, given the kind of company we are now and the way we are operating? In our current situation, do we have to do this job this way?"

Record-keeping procedures can be a source of substantial savings. For example:

In a packaged produce company, an important and able man fairly high up in the management organization was spending more than half of his time keeping a daily product-cost record according to a schedule set up ten years before. He did not know exactly what the information was for, nor did he understand the figures or the way they were ascertained. Frustrated with his assignment, he did some checking one day and discovered that his superiors did not know what the daily report was all about either. As a matter of fact, they never even looked at it.

The explanation of this all-too-common tangle was clear enough. When the company was small and centralized, daily cost figures were meaningful and provided some guidance on suppliers and processing techniques for top executives. But when the firm doubled and then trebled in size, it became so complex that no one could act fast enough to make daily reports of any value. Ultimately, the system was changed to a weekly study covering items of greatest significance, thus releasing the time of an important man for important work and providing top management with really useful material.

The production end of the business, too, can be suffering from overlap, duplication, and lack of system. Once-useful activities may be turned into wasteful ones by the introduction of automation, for example. Although management almost always effects the far-reaching changes that must be made when automatic machinery is brought in—such as new relationships between departments, new personnel practices, and new functions for managers—it often overlooks the need for relatively minor revisions in procedure. This neglect can run up the costs of doing business quite needlessly.

A number of firms have cut costs by systematizing the solicitation practices of their salesmen. It is too easy to slip into a habitual pattern of

calls which doesn't take into consideration those which are the fruitful outlets and those which are generally thin. A realignment of routes, change in the frequency of calls, and an adjustment of promotional programs can often save the cost of some personnel and produce more results for less money.

The greatest success in cost-cutting has been achieved by companies in which top management has conditioned itself for major change and motivated front-line and middle management to gain the desired savings by methodically facing up to the problem, searching out opportunities for economies, and setting up a rational cost-cutting program. These companies have recognized that:

1. Effecting economies is not a matter of chopping off whole functions but an over-all process that extends through a whole company. Thus the cost-cutting task becomes a tedious and delicate one of pruning and trimming, rather than a series of dramatic strokes.

2. More often than not, successful and relatively painless cost reduction means a revision of a system, or the development of some formal procedure where none existed before. This is neither easy nor earth-shaking, but the results can add up to substantial savings.

3. Record keeping in all departments and at all levels is especially vulnerable to the scalpel of the cost-conscious executive. But the probing has to be done in depth; often the explanations seem perfectly rational.

4. There are no standard cost-cutting formulas, for one firm's waste motion may be another's essential function. Tracking down excess cost depends on a clear answer to the question, "What are our real needs in this particular company?"

5. Cost cutting is a team job. Unless the achievement of savings is a goal of the total enterprise, the effort will be only partly successful.

6. Administering the program is a tougher job than getting cost-paring ideas, because vested interests will often be affected. Cost-cutting tools —data showing how the cost dollar breaks down—must be available down to the lowest levels, and all responsible personnel must be trained in using them. ♦

DESPITE THE CURRENT EMPHASIS on cost-cutting, U.S. corporations are spending more than ever today to communicate with employees, judging from a survey of 188 major industrial companies made recently by the House Magazine Institute. The results showed that 19 per cent of the firms actually have increased their employee magazine budgets and 53 per cent are standing pat on their appropriations. Although 28 per cent have cut back their magazine budgets, a third of these have appropriated funds for other employee communications devices, such as supervisory newsletters, reading racks, and posters. Only eight reported that they had discontinued their employee magazines in the past year and a half.

Too much PAPER WORK for salesmen?

Condensed from The American Salesman

How MUCH TIME should a salesman spend reading and writing? Does he have a legitimate gripe when he complains about having to devote valuable hours to what he considers useless paper work?

That there is little agreement on the value of paper work for salesmen is clearly shown by interviews held recently by *The American Salesman* with a representative group of salesmen, sales and operations managers, and sales training directors.

"Why should we weigh our men down with a lot of stuff they'll never look at anyway?" asked a sales training director of a plumbing company. "They get a lot more out of the periodic conferences we hold here in New York. Face-to-face, they can swap experiences and bring up questions that would never be covered in ten years of bulletins and letters. You just can't beat two-way communication. There's less chance for misinterpretation across a table, too."

But from the man in charge of the training program of a large appliance company came this view: "There's a reason why 20 per cent of America's salesmen actually sell about 80 per cent of the goods in this country. They're the best trained, best read, best informed men in their fields."

In general, these were the criticisms leveled against paper work:

1. It is a thief of time. The hours spent in actual face-to-face contact with customers and prospects are what count. In some cases, paper work has reached such dimensions that it is interfering with the salesman's private life.

2. Much of it is of no real value. The reading matter neither helps a salesman do a better job of selling nor tells him anything significant about his company or product. He also fails to see the value of many of the reports he is required to submit.

3. There is too much duplication in the communications the salesman receives from his company's various departments. Memos, bulletins, and letters frequently cover the same

The American Salesman (March, 1958), © *1958 by American Salesman, Inc.*

ground. Result: confusion and a suspicion that management underestimates his intelligence.

4. Often, the literature he is sent does not apply to him at all. For example, a medical supply company deals with three different types of customer—hospitals, physicians, and druggists—and maintains three sales staffs to serve them. Until recently, every salesman received identical communications, only one-third of which were of any interest or value to him.

5. Too much company literature is poorly written. It is a chore for the most dedicated salesman to wade through it.

6. The steady cross fire of mail between salesman and home office is coldly impersonal. The man who sells would like to feel that he is more than a cog in a giant mechanism. In the flood of reading material that reaches him almost daily, he'd like to see an occasional personal message from his sales manager.

Defenders of paper work for salesmen made these points:

1. Because of the competitive picture, today's salesman must be better informed than ever before. Gone are the days of the "personality kid" who backslapped his way into a sale. The emphasis is now on knowledge of product, service to customer, application of sound sales techniques. None of these is possible without a good deal of reading and writing.

2. Management must plan ahead, often as much as two or three years. Production schedules, advertising campaigns, traffic systems, the entire complex of modern industry depend on "educated" guesses of what the public's needs and desires will be in the future. The daily, weekly, and monthly reports that salesmen are required to file are not a nuisance some ogre dreamed up, but genuine contributions to those guesses.

3. Paper work, approached systematically and done properly, need not take as much time as many salesmen think.

It is interesting to note that salesmen did not automatically object to paper work; nor did management automatically endorse it. There was a great deal of crossing of lines on both sides.

On one point all agreed: reading represents the bulk of salesmen's paper work. The variety—and volume—of literature a salesman must wade through each month is enough to stagger a professional book reviewer. There are weekly and monthly bulletins, catalogs, manuals, specifications and plans, article reprints, brochures and booklets, house organs, the trade press, special sections of newspapers, advertising and promotional literature, internal office letters, news magazines, and special reports.

Burdensome? Perhaps. Yet, according to several of the men interviewed, the average salesman's reading list should be lengthened.

"One indispensable area of reading matter too often neglected by the salesman is his competitors' literature," the district sales manager of an air-conditioning firm pointed out. "The best way to find out what you're up against is to get hold of the other fellow's brochures, booklets, ads, and promotion pieces. Then you can

anticipate customer questions and prepare answers well in advance."

But how can a salesman, already suffocating under a blanket of paper work, do all this additional reading?

One solution, invariably mentioned by the men interviewed, is to learn how to skim. "With a little practice, a salesman can easily get through 500 words a minute without missing any important matter," said the operations manager of a large heating equipment company.

"The best time to read," said the top salesman of a publicity syndicate, "is whenever you have a chance. On a bus, in a cab, train, or reception room—any time is the right time. There's an art to waiting and you can make these heel-cooling sessions as productive as a trip to the library."

Relatively few salesmen object to the demands on their time made by writing. The importance of correspondence, particularly with customers, is clearly recognized. When complaints over writing chores are voiced, they are likely to be aimed at the reports each salesman must fill out covering his calls for the day and week. As one put it, "Who can remember every blasted detail of eight or ten calls by the end of a day?"

One solution came from an office equipment sales manager. "There's no need to rely on memory," he said. "Every salesman should be armed with a pocket notebook in which he can enter abbreviated notes that he can later transfer to his reports, records, and order forms. Or he can invest in a portable tape recorder and talk his notes into permanency moments after leaving a prospect." ♦

Telling Off the Boss

A HIGHLY UNUSUAL APPROACH to controversial issues results in the frequent publication of antimanagement opinions in the weekly plant newspaper of General Electric's Pittsfield (Mass.) power transformer plant. Plant Panel, a regular feature of the paper, asks employees such questions as, "Do you think the company's code of ethics is based on moral principles?" and freely prints such replies as, "The company is going steadily backwards to the Dark Ages."

Until 1956, Plant Panel asked questions like, "What is your favorite comic strip and why?" Then management decided that Plant Panel could become an outstanding media of two-way communication if both panelists and the company could express their honest opinions on important controversial subjects. The new Plant Panel appears alongside an editorial giving the company's position on the question of the week.

Management feels that Plant Panel achieves these objectives:

1. Establishes greater credibility for management.
2. Gives more interest to the editorial page.
3. Provides recognition for the employee's point of view.
4. Brings misinformation into the open.
5. Informs management on employees' real attitudes.

A vastly expanded defense effort could necessitate substantial sacrifices in living standards and the maintenance of our productive plant . . .

When Will Defense Spending Begin to Hurt?

By Gerhard Colm and Manuel Helzner

Condensed from Challenge

NATIONAL DEFENSE, as the experience of the past decade has painfully taught us, is expensive. For the past ten years it has been by far the largest single item in our national budget, and the likelihood is that these costs of the armament race will continue to rise until a practical agreement on arms control can be achieved.

This prospect has caused some economists and policy makers to ask out loud whether such substantial and sustained enlargements of our defense budget will not undermine the strength of the American economy. Without questioning the desirability of expanded defense spending, they wonder whether we can "afford" it.

It is true that the President's budget recommendations for 1959 do not make the question seem urgent at the moment. While the budget for fiscal 1959 provides more funds for the development and production of guided missiles and military airports, it also implies a severe cutback in conventional weapons and in the size of military forces in being. And except for the additional outlays scheduled for the federal highway program (which, in any case, do not appear as part of the conventional administrative budget), increases in some nondefense programs are offset by recommended cuts in others.

However, many experts believe that the seriousness of the Soviet challenge requires a much larger effort. We are being challenged not only in the technological and military fields, but also in the fields of foreign economic aid and over-all economic performance. Recent events have highlighted many deficiencies in our capacity to meet this challenge—in such important areas as missile development, civil defense programs, and research and education. While no one suggests that these deficiencies can be removed simply by appropriating more money, increased efforts in these fields are required and will, undoubtedly, involve more funds. There are already indications that for some of these purposes Congress will provide more funds than requested by the President.

Could the American economy afford the substantial rise in government expenditures which such programs would require? What are the limits to our capacity to increase the defense effort without making substantial sacrifices in living standards and in the maintenance of our productive plant? At what point would

we begin making serious sacrifices?

At present, our economy is producing goods and services at the rate of about 430 billion dollars a year, which is approximately 25 billion dollars below what it would be if we had reasonably full employment. Thus, it would be possible under present conditions to increase substantially national security programs merely by utilizing unemployed labor and idle factories. To the extent that these resources would otherwise remain idle, such defense programs would not "cost" us anything in economic or social terms.

But that is not the whole story. For, in a period of economic recession, the government might seek to step up other, nondefense programs or reduce taxes. A significant—and not necessarily very large—addition to the defense program would limit the practicability of such measures.

What, then, is our long-run capacity to absorb increasing defense expenditures? A growing labor force and increases in productivity suggest that we can expect an annual increase in our gross national product of about 3.5 per cent per year at constant prices—i.e., an annual increase of about 15 to 20 billion dollars over the next few years.

This increase in production and incomes would net the federal government an additional 3 billion dollars per year in revenues, even if there were to be no change in existing tax rates. Assuming that the economy continues to expand, this would mean that federal expenditures could be substantially increased over the years without incurring a budgetary deficit. Furthermore, an increase in national security programs of 3 billion dollars per year, out of a total increase in production of approximately 15 billion dollars per year, would still leave ample resources with which to increase consumption and make additional investments.

Although a 10-billion-dollar increase in national security programs over the next three years need not create excess demand pressures, the problem of price increases cannot be ignored. Prices rose in 1957, despite the fact that we had a budget surplus and were operating below full employment levels. Another consideration is that the mere announcement of large additional government programs might have an inflationary impact on business even before actual expenditures have been made. But even taking this into account, a 10-billion-dollar increase in defense programs, phased over a three-year period, could readily be undertaken at current tax rates. Indeed, without such an increase current tax rates could be reduced.

When we consider more substantial defense programs, however, the story is rather different. An increase in defense expenditures of up to perhaps 20 billion dollars by 1962 might necessitate an increase in tax rates to Korean War levels and a drastic curtailment of some nondefense government programs.

At the same time, however, such an increase in the defense program would raise the nation's productive capacity approximately 90 billion dollars by drawing more people into the labor force, reducing unemployment, providing more opportunities for

overtime work, and so on. Thus, a 20-billion-dollar increase in defense programs built up over a three-year period would absorb around a quarter of the potential increase in production. But such an increase would have a high economic cost: a large increase in taxes, a severe limit on increases in standards of living, and a strict limitation on both public and private nondefense investments. Moreover, inflationary repercussions of such a program might require the adoption of economic controls designed to reduce scare buying.

What about a defense program substantially larger than an additional 20 billion dollars after three years? Reliance on tax financing would mean tax levels which might very well interfere with needed economic incentives. Thus, if additions to the defense program built up to 30 billion dollars after a three-year period we would leave a "cold war economy" and enter a mobilization economy. The costs would be not only very high taxes and a drastic curtailment in the rate of economic progress, but also the inevitable sacrifice of cherished economic freedoms to the controls of a war economy.

It does not seem likely that we shall be faced with this extreme "mobilization economy" in the very near future. But there will be problems even with smaller increases in defense programs. If recognized soon enough, however, these problems can be managed without serious harm to the economy. ◆

Packages Within Packages

ONE OF THE HOTTEST DEVELOPMENTS in the fast-moving packaging field is the multipack. Marketers of many varied products—food, soap, dog food, hardware, paints, film, cigars—are experimenting with putting packages within packages.

If adopted without careful planning and calculation, multiple packaging can boost costs considerably. But for the right product, in the right multipack, in the right outlets, it can also result in hefty gains in sales volume. For example, a Maine sardine packer found that by offering four cans in a multipack he boosted sales 32 per cent. A recent survey of 101 supermarket managers in the East revealed that 75 per cent preferred frozen fruit-juice cans in a six-unit multipack that can be broken easily into two three-can packs.

Multipacks have been most successful in the marketing of beer in supermarkets; more than half of all packaged beer is now sold this way. But for some other products, such as canned vegetables and soups, multipacks have had only mixed results.

Companies are finding that one of the important advantages of the multipack is the opportunity it offers to display an advertising message at the point of sale. In addition, multipacks fit in nicely with the population shift to the suburbs, where housewives buy in larger quantities.

—Thomas Kenny in *Dun's Review and Modern Industry* 2/58

Putting Dealer Ideas to Work

Condensed from Printers' Ink

RECENTLY, a group of camera dealers who sell Bell & Howell camera and sound equipment traveled to Chicago for a no-holds-barred talk with the company—at the company's expense. It happens every spring, as part of a program that has been paying big dividends to the dealers and to Bell & Howell for five years.

Five years ago the company decided its dealer relations could stand improvement. It developed a three-phase program:

1. Executives from outside the marketing department make irregular but frequent visits to the dealers.
2. An elected dealer advisory council meets each year at Bell & Howell headquarters to discuss possible marketing improvements.
3. The company employs the Industrial Relations Center at the University of Chicago to survey changing dealer attitudes.

Carl G. Schreyer, vice president of marketing, told a recent business conference that these dealer-related activities have helped Bell & Howell to increase its volume steadily. The company's sales were $45 million in 1956, $52 million last year, and Schreyer forecasts a greater volume for 1958, despite the recession.

Schreyer describes the philosophy behind the dealer program this way: "You have a dollar and I have a dollar. If we exchange dollars, we still have one dollar each. But if you have an idea and I have an idea, and we exchange ideas, then each of us has two ideas."

To get this exchange of ideas, manufacturing, financial, and engineering executives go on frequent tours to meet and talk with dealers about all aspects of making and selling the Bell & Howell product line. The dealer can make his suggestions and criticisms, and get answers from the men who know the problems best.

The executives and the company also benefit Schreyer insists that "everyone in the company must be marketing-oriented." Top management agrees.

Since a touring executive couldn't cover all the dealers on all phases of the operation, Bell & Howell decided

to bring the dealers to Chicago for a round-table discussion of their problems. All Bell & Howell dealers are organized into 16 areas, with one dealer elected in each to represent the others in his area. An independent organization, not the company, tallies the votes.

After the election, the dealers in each area are asked to get in touch with their representative to make their criticisms and suggestions. The area representative then goes to Chicago for the Retail Advisory Council meeting, loaded with his ideas and others.

A typical gathering bases its agenda on the theme: What can Bell & Howell do to build a bigger, more productive business for its dealers? The company makes a point of telling the dealers, "We want you to give it to us straight from the shoulder." The free-wheeling discussion generated in this atmosphere ranges over such topics as communications, repair and guarantee policy, sales techniques, industry marketing practices, trade discounts, and the effectiveness of the company's field representatives.

"We talk about every conceivable thing that affects our relationship with the dealers," Schreyer says. "And," he adds, "much of the talk leads to action." He points out, for example, that the dealer organization was "helpful to us in establishing our new franchise policy, which we put into effect last July and which has strengthened our position in the market today."

Sometimes the subject of a meeting is a very specific one. The dealer council meeting last year was shown three sample displays planned for Christmas sales promotion. The dealers liked none of the three. From their criticism emerged ideas for revamping the three into one, which proved acceptable and was used in the stores.

To strengthen the first two phases of the program—the executive visits to dealers and the Retail Advisory Council—the company added a third step in 1955. It retained the University of Chicago's Industrial Relations Center to make a mail survey of dealer reaction to all phases of the company's marketing program. The survey was repeated last year, bringing responses from about 60 per cent of the 1,000 dealers who received questionnaires. Responses are kept anonymous and confidential. The survey is broken down into 67 questions in 11 categories, which include company relations, administrative services, company products, product services, sales promotion, pricing policies, and distribution systems.

Marketing vice president Schreyer says, "The survey gives us a large sample, and it gives us information fast. It would take months to go out and get all these comments from 600 dealers. The confidential nature of the survey helps the dealer to speak freely, and the result is an objective report.

"Also, the survey is broken down geographically. Dealers will think differently about the company in different areas . . . primarily because of the man in the field."

The survey report is shown by marketing to the other departments of the company. Marketing then

meets with these departments—engineering, manufacturing, quality control—to discuss adjustments in their activities indicated by the report.

The company profile revealed by the report is also sent to field men in the various territories, along with a profile of their own territory. Obviously, where the territory profile doesn't show up as well as the over-all company profile, the field man knows that changes have to be made. He will send the home office a self-analysis to serve as the basis for further discussions aimed at correction.

In the first survey, two-thirds of the dealers said company representatives were of little help in training the dealer's salespeople. By 1957, after corrective measures were undertaken, there was a "gratifying increase" in the number responding favorably to this question.

The survey has also led to substantial improvements in individual territories. In 1955, for example, 85 per cent of the dealers in one area complained that they were getting almost no help from the field representative. Corrections were made in his procedures. By 1957, 77 per cent of the dealers in the area expressed satisfaction with the assistance given them by the field man.

Why does Bell & Howell put so much emphasis on dealer relations? Schreyer explains: "I consider the total marketing program as a wheel of many spokes—advertising, field selling, and so on. The dealer organization is one of the important spokes. When the manufacturer communicates with his dealers, understands their problems, and gets their contributions, then the total marketing program is more effective." ♦

Millions Up in Smoke

A SHARP INCREASE in devastation from major industrial plant fires sent total property losses from all major fires in the U.S. and Canada to a record high of almost $350 million last year, according to the National Fire Protection Association. Although the number of major fires—those with losses of $250,000 or more—dropped slightly from 430 to 422, the dollar cost was $20 million higher than in 1956, the previous worst year. Fires of all sizes in 1957 resulted in a total loss of $1,275,000,000.

There were 125 major industrial fires in 1957, causing a total loss of $95 million—up more than $25 million from the 1956 total. This sharp jump was the primary factor in the over-all increase in major-fire losses, offsetting the improved records made by hotels and other residential buildings, schools, churches, and aircraft.

According to the National Fire Protection Association, the mounting toll of major fires is primarily due to construction weaknesses that violate fire safety standards and to the lack of adequate automatic sprinkler systems.

—*The Weekly Underwriter* 4/26/58

The business slump has made more work for the nation's 2,300 credit bureaus . . .

They Check Up on Credit Customers

Condensed from Business Week

THE 2,300 CREDIT BUREAUS all over the country are having a busy time these days as U.S. retailers, made wary by the recession, turn to them more and more frequently for information on credit applicants.

Credit bureaus provide vital data about a customer that can completely reverse the impression the retailer receives from the applicant's appearance and manner. Recently, for example, an unshaven, shaggy-haired man in a baggy suit shuffled into the Manhattan shop of A. Sulka & Co., plush men's haberdashers. Selecting a couple of $12.50 ties and a $97.50 Scotch wool flannel robe, he instructed the suspicious salesman to "charge it." The salesman excused himself, and hurried the sales slip to the store's credit manager, John T. McCaffery, who made a quick telephone call. Less than two minutes after leaving the customer, the smiling salesman returned. In Sulka's book, the seedy shopper was O.K.

McCaffery had phoned the Credit Bureau of Greater New York, a cooperative whose membership of 1,500 includes most of the city's big retail establishments. The bureau's huge file of dossiers contained the personal and financial history of the Sulka customer. McCaffery had learned his man had a fat bank account, a good income, and had always paid his bills promptly.

Far from cutting down the number of such inquiries to the New York bureau, the current recession has had the opposite effect. Rudolph M. Severa, the bureau's executive manager, says that credit inquiries from members have lately been running 5 to 7 per cent ahead of a year ago.

Severa feels that a part of the increase results from closer credit checks by smaller retailers aware of recession pitfalls. "There is less and less 'eyeballing' of credit applicants by the smaller retailers today," Severa says. "They're looking more carefully at credit applicants, and checking with us more often."

The New York bureau's counterpart across the continent, the Retail Merchants Credit Association of Los Angeles, also reports its volume of current inquiries is running ahead of a year ago—by 4 to 5 per cent. Los Angeles reports, too, that the

number of cases that turn out to be over-obligated credit risks is increasing. What's more, the bureau's collection agency (many credit bureaus operate such units) is getting busier as more customers slow up on bill payments.

Not all credit bureaus are having the same recession experience, however. Milton Deutch, manager and vice president of the Chicago Credit Bureau, says applications of some 2,000 a day are about 5 per cent under a year ago. Carl S. Hobbet, general manager of the Credit Bureau of Cook County—also processing about 2,000 applications daily—reports a similar slowdown. Hobbet attributes the decline to layoffs and work-week cutbacks in the Chicago area. The lowest income group has been hardest hit, he says, but new account activity in the better stores is also down slightly.

Metropolitan credit bureaus are repositories of an enormous amount of information. New York's bureau, 40 years old and the world's largest, has some 6.5 million individual credit histories. Each year it adds around 750,000 and weeds out about the same number as obsolete. The staff of some 250 full-time and 100 part-time employees processes 7,000 to 8,000 applications daily.

In addition to the files on individuals, the staff keeps up a separate file of around 14 million records of court suits, judgments, bankruptcies, and federal tax liens in the five counties of New York and in eight neighboring counties in New York and northern New Jersey. More than 1,500 wholesalers, jobbers, factories, finance companies, and banking, lending, and retail institutions subscribe to the court record report the bureau publishes daily.

Not everything can be found even in the voluminous files—and that's when the phone and field work starts. If there's no file on the person in question, the phone investigators start buzzing the credit applicant's references and the people he does business with; field investigators talk directly to persons in the applicant's neighborhood.

Most credit bureaus guard their files closely and will answer only business requests from accredited members or inquiries from government agencies such as the police, district attorney, or Federal Bureau of Investigation.

But occasionally a credit bureau will accept inquiries of a nonbusiness nature from one of its members. One bureau has on its roster a wealthy young widow with wide business and social interests. Through her business membership, she inquired not long ago about a gentleman who had asked her for a weekend date in New York. The New York bureau's report began: "Age 36, married, three small children, dependent." She refused the date. ♦

MAN'S CAPACITY FOR JUSTICE makes democracy possible, but man's inclinations to injustice makes democracy necessary.

—Reinhold Niebuhr

PROGRESS REPORT ON SOLAR ENERGY

By R. W. Benedict and D. O. Ives
Condensed from The Wall Street Journal

RECENTLY, workmen began putting up an unusual 15-story structure on a lonely mountain five miles north of Cloudcroft, New Mexico. Its purpose: to trap and concentrate the enormous energy of the sun's rays to fire a super-hot furnace for testing materials going into future missiles, manned space craft, and nuclear reactors.

Across the country, at Lexington, Mass., the Massachusetts Institute of Technology recently unveiled an experimental three-bedroom house that will get most of its winter heat and all of its hot water supply from the sun.

And out in space, the Navy's tiny Vanguard satellite is sending some of its signals back to Earth with a transmitter that gets its power from the sunshine striking the speeding sphere.

These are but three items on the lengthening list of products and processes using solar power in place of—or supplementary to—conventional energy. The step-up in solar energy applications, say scientists, advances the day when the sun may heat and cool many of the nation's homes, cook and refrigerate food, and perhaps supply power to run things as diverse as household appliances and space ships.

Already, the sun is providing the main source of heat for at least nine U.S. houses and auxiliary heat in scores of additional homes, as well as hot water for thousands of households in Florida and California. Solar energy also cooks meals for families in such countries as Mexico and India, fires some 35 furnaces used by industrial and military researchers, and powers a growing number of consumer products, including radios, clocks, and cigarette lighters.

"The one energy source we have in abundance is solar energy," says John I. Yellott, executive director of the Association for Applied Solar Energy, Phoenix, Ariz., an international organization of manufacturers, research laboratories, and individual scientists interested in solar energy. "To date," continues Mr. Yellott, "we have made virtually no use of this resource in this country because of ample supplies of fossil fuels (coal and oil). But this era is now ending,

and the sun is going to have to supply directly a growing share of our rapidly rising energy needs."

Despite the lure of low fuel bills, home seekers probably won't stampede to buy solar houses such as the M.I.T. experimental model. Its solar heating system costs "about six times as much as a conventional system giving equal comfort," says one of the designers of the Lexington house. But solar engineers believe costs will be cut and sun-operated heating and cooling systems will be a big factor in the home-building industry within 20 years.

"To get solar heating off the ground, manufacturers may have to lose money for a while, or depend on a few pioneer buyers to lead the way, as with color television," says Dr. George O. G. Lof, a solar energy consultant who himself occupies a $45,000 sun-heated home in a Denver suburb. He believes mass production of solar heating systems might whittle their price to a level about $1,500 higher than the price of conventional systems, low enough for fuel savings to offset the additional cost in about five years of operation in many households.

A growing number of companies are hard at work developing and selling a wide range of solar-powered products for consumers. Here are a few examples:

A company manufacturing sun-powered portable radios says they are selling better than anticipated. The radio—which sells for around $100—gets its power from solar batteries housed in its handle. The batteries consist of thin slices of silicon, the second most common element found in nature.

Another company is marketing a solar clock that is powered by a number of window-like circular cells embedded in its top. One week's exposure to solar or artificial light winds the clock for a full year's timekeeping. It sells for about $250.

A New Jersey company is licensing manufacturers to make solar water pumps and small sun-operated water distillation units. At least 11 Florida companies have been making solar home water heaters for several years.

The development of solar energy applications is by no means monopolized by the United States. Solar energy studies are being pushed energetically by the Soviet Union. In fact, according to some U.S. scientists, Russia is already operating an experimental solar power plant, and may be ahead of us in developing large solar batteries.

These scientists say the Russian power plant works this way: Large flat mirrors riding on railroad tracks slowly circle a boiler mounted on a pylon at the center of a mile-square terraced field. Moving with the sun as it crosses the sky, the mirrors reflect solar rays onto the boiler. Steam generated by the boiler drives a turbine-generator that produces electricity. ♦

WE MUST TREAT IDEAS somewhat as if they were baby fish. Throw thousands out into the waters. Only a handful will survive, but that is plenty.

—Anne Heywood

Using MR *in your marketing program*

By David S. R. Leighton

Condensed from The Business Quarterly

DESPITE the current controversy over the merits of motivation research, it looks as if this new marketing tool is here to stay. For the businessman who accepts it, pro and con arguments are not of very much help. What he wants to know is how he can use motivation research in the most legitimate and effective way to solve his marketing problems. Here are some of the major questions that are likely to engage his attention:

Where can motivation research be used?

Up till now, most applications of motivation research have been concerned with advertising appeals and packaging. However, motivation research has even greater potentialities as a help in dealing with broader questions of over-all marketing strategy.

Motivation research can identify both the consumer's psychological needs and his attitude toward a particular brand, thus helping the manufacturer determine whether his product possesses the kind of brand image that will give him the largest possible sales. Motivation research would seem to be of greatest potential use to the individual firm in situations where the so-called "rational" buying factors—such as price —do not provide a full explanation of consumer preference. Examples would be instant coffee and beer. Here, although physical qualities, promotion, and distribution are relatively equal, significant differences exist in share of market, the price, or both.

How should motivation research be used?

Motivation research should not be considered a substitute for market surveys, sales tests, copy tests, or any of the other traditional tools of marketing research. It is only from a combination of approaches that really fruitful answers to marketing problems can be derived.

In his book *Motivation Research and Marketing Management,* Prof. Joseph Newman of the Harvard Business School emphasizes the function of motivation research in *producing* ideas and hypotheses, as distinguished from a good part of traditional marketing research which has been more concerned with the *testing* of ideas and hypotheses. A similar approach is taken by A. R. Graustein, Jr., marketing research director for Lever Brothers Co., who says,

"We have come to think of motivation research as essentially an *idea* source . . . Once we have developed an idea through motivation research, we can turn it over to the marketing people and say, in effect,

The Business Quarterly (Spring, 1958), The University of Western Ontario.

'Look, boys, does this idea intrigue you enough to make you want to take some new marketing action? If so, tell us what you'd like to do and how you'd go about doing it, and we'll then test the effectiveness for you with old-fashioned nose-counting techniques.' "

What about the cost of motivation research?

Good motivation research is not cheap. Some motivation studies are reported to have cost as much as $30 an interview, compared with between $3 and $10 for an interview of the objective survey type. Thus, elaborate motivation research is not feasible for questions of relatively minor importance.

On the other hand, motivation research should not go unused merely because it may not produce immediate, short-run benefits. Motivation research should be regarded as a capital expenditure and should be handled in the same way as other more common forms of capital expenditure.

How should a motivation researcher be selected?

Motivation research is a job for outside specialists. A number of guideposts can be suggested for the company in need of effective motivation research:

1. In general, firms which have been firmly wedded to traditional marketing research methods are not sympathetic to motivation research and may be offering it merely because clients have demanded it.

2. A firm with considerable previous experience in motivation research is more likely to have worked the "bugs" out of its methods. Such a firm could also be of help in pointing out where motivation research can be practically applied.

3. A firm employing specialists with a variety of backgrounds in the social sciences is more likely to give a balanced viewpoint on the problems of consumer motivation.

4. The individual members of the research firm should preferably have extensive and sound educational backgrounds. Motivation research is only as good as its interpretation, and sound interpretation requires strong academic training and experience.

5. The quality, experience, and training of the interviewing force should also be considered. Most forms of motivation research require a great deal more skill on the part of the interviewer than do orthodox market surveys.

What about translating motivation research into action?

This is a crucial phase, where mistaken interpretation can be extremely costly. Some motivation researchers go one step beyond a mere presentation of findings and recommend courses of action in advertising and marketing strategy. In doing this, they are treading on thin ice, for they are usually not equipped to grasp the complexities of the *total* marketing job.

Thus, the primary job of fitting motivation research findings into the over-all marketing picture and translating them into action must remain with the marketing executive. He will be faced with many pitfalls. One of the most common is the tendency to apply findings on a general product type to a specific brand within the product classification. For

example, a *Chicago Tribune* study concluded that beer had appeal primarily for the average man and that advertisements should show the product in believable, down-to-earth settings. The result was a flood of advertisements by competing brewers showing golfers heading for a beer after finishing their round, or husbands in cooks' garb grilling steaks at a barbecue pit. The themes, the appeals, even the characters in the ads, seemed uncannily similar. These ads might have been believable and might even have sold a lot of beer, but did they sell any particular *brand* of beer?

Motivation research, like marketing research in general, is no substitute for the judgment and skill of the marketing executive. He remains the key man in the process of getting the goods sold, and it is he who will determine in the long run the extent of the contribution MR can make to more efficient marketing. ♦

"They've adopted a new streamlined management policy over at the plant that doesn't require my presence there—or anywhere else, for that matter."

To err is human, and a pattern for undoing the ill effects of mistakes should be part of every manager's thinking . . .

When DECISIONS go wrong . . .

By Charles A. Cerami

Condensed from Nation's Business

EVERY EXECUTIVE must occasionally face the problem of changing his course or undoing a mistake. Yet no other recurring business situation gets so little attention or planning from management.

One well-managed corporation has been shaken to its foundations recently because several major plans suddenly went wrong. In each case, no fault could be found with the project, but several unforeseen events —a key man's heart attack, a major research discovery by a competitor, a temporary dip in sales volume—combined to plunge this company into serious trouble.

"I think our worst enemy was too much good fortune over the past ten years," one of the firm's officers said. "The problems that suddenly fell on us were not really so enormous. But we had been advancing for so long, we didn't know how to retreat. Since you can't have a two-platoon system in business as you do in football, I wish we had kept practicing our defensive plays all along, instead of having to learn on the run."

A pattern for undoing error should be a regular part of every businessman's thinking, something he keeps stored in the back of his mind for occasional use. There are two major reasons for having such a stand-by program:

1. The moment when a mistake is realized is almost always a time of pressure. Sudden hunches are usually suspect, and particularly so when an alarm bell has sounded. It's safer to know in advance what to do in case of fire.

2. An executive will be more aggressive if he knows that a move can be reversed and approximately how much a change of course would cost. It is the subconscious feeling that decisions are almost irreversible that tends to shackle the decision-making process and encourage undue timidity.

The best medicine, of course, is preventive medicine. A trader in wheat, securities, or foreign exchange regularly uses the technique of hedging to keep possible losses from becoming disastrous. True, his profit

opportunities are often reduced. But he can live with this as a kind of insurance premium that prevents any single error from wiping him out.

The hedging technique can be successfully carried over into more common business situations. For example, a leading paper products company recently appointed a top-flight man as assistant to an executive whose health is questionable. It is paying more than the job demands today as insurance that a good substitute will be on hand in case of emergency.

Suggest that each of your executives go over these check points as a regular part of his decision-making routine:

What can go wrong with this plan?

How serious would each of these occurrences be?

What can be done to lessen the possible impact of each?

Is the cost or disadvantage of providing these hedges compensated by the benefits they can provide?

Perhaps the most delicate question to be faced is: How do you know when it's time to reverse a decision?

There is a real danger in jumping too nimbly to the conclusion that a plan is going wrong. Many projects need just one more push to go over the top. Abandoning attempts too soon is often a mark of timidity. But there are many more times when the opposite mistake is made. A failing program is allowed to go on and on—sometimes even to the point of no return.

Failure to make a change is, in itself, a new decision. In effect, you repeat this decision day after day when you refuse to adjust to adversity. Keeping the status quo may be the right thing to do, but be sure that logic, not inertia, dictates the choice.

Sometimes the cost of undoing the decision seems too great. In any number of situations a move is recognized as unfortunate, but there is reluctance to cancel it and suffer enormous loss of prestige, good will, or money. This may be the case with a price increase that proves damaging to sales, or a new customer service feature that doesn't live up to expectations. Before you conclude that you can't afford to change, however, calculate whether you can afford not to.

Once the decision to change is made, some improvising will undoubtedly be necessary. Even if hedging has been used as far as possible, situations may still arise that are not normally foreseeable. For these situations the only form of preparation is to establish a basic, general policy to be applied to the correction of decisions that go wrong. Such a policy should include four main points:

1. Admit frankly that an error has occurred. Psychologists say some people find it almost impossible to admit—even to themselves—that they have made a mistake, but the average person will have no such problem if he sees a general policy of open admission on everyone's part. It should be common knowledge among your executive group that mistakes resulting after reasonable care was used will be more readily tolerated than attempts to evade responsibility. It is especially necessary for each man to feel that he has a

duty to face the fact of error and to pinpoint its cause—regardless of who committed it. A permissive attitude and reluctance to point out mistakes frankly to subordinates can be as harmful to the over-all spirit as an overly critical atmosphere. When criticism is tactfully given as a matter of course, it is a positive contribution.

2. Make a heroic effort to avoid useless blaming and recrimination, substituting instead an analysis that will prevent recurrence. Remember, too, to look for the benefits that may result from the error; sometimes a series of disappointments proves to be the forerunner of a great success. Such an approach has the added merit of showing all concerned that the company is looking ahead to future performance, rather than harboring a grudge for old mistakes.

3. Wherever possible, let the man who made the original decision handle the corrective procedure. Too often, the worst consequence of a mistake is damage to confidence and group morale. This is largely averted when people are allowed to see and overcome their own errors.

4. Move ahead in the new direction with the spirit that the change represents an entirely new and separate decision. Broken plans trail disappointment and lethargy in their wake; new ones are surrounded with the glow of enthusiasm. ♦

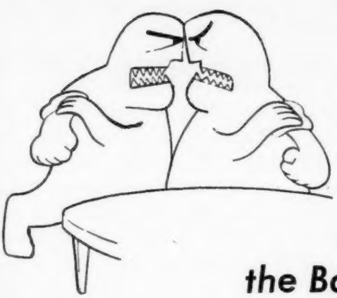
Management Plays the Numbers

A SYSTEM of clearly defined authority levels based on numerical ratings has greatly increased efficient delegation of responsibility at the Wrexham Personal Products plant of Johnson and Johnson, Ltd. (Great Britain). The system works this way: Every member of management from the managing director to the most junior supervisor has an authority rating, ranging from 1 to 19. A departmental foreman, for example, has a rating of 13, which means he can: authorize a pay increase for an assistant group leader, or recommend one for grades up to shift foreman; can spend up to 9 pounds on anything which he thinks may help production; and can authorize two weeks' leave with pay for any employee under his control. Lower down the scale, a group leader has a rating of 17, can recommend a pay increase for an assistant group leader, spend up to 5 pounds, and give two days' leave with pay.

The authority system is strictly observed. For instance, the works director cannot walk into a department and tell an employee to sweep the floor. His order must go through the proper channel, the employee's immediate supervisor.

The system has had an excellent effect on morale, according to the company. Supervisors feel that the clearly defined authority levels insure that initiative and efficiency are rewarded fairly.

—George T. Rae in *Business* 3/58



Tips on what you should know and do to get ready for contract negotiations . . .

Shaping Up for the Bargaining Session

Condensed from Steel

ABOUT 80,000 of the 125,000 labor contracts in existence expire this year. Each expiration provides an opportunity for building a better contract, but to capitalize on these opportunities management must take positive action. "If management wants to preserve the right to manage it must take the initiative and not wait for the union to make demands," is the way one industrial relations manager put it recently. To make demands and to bargain successfully, you'll need facts to support your claims. One way of getting the necessary facts is to take a cost accountant off his regular job several months before your contract expires; have him develop statistics on such things as work standards and hidden seniority costs, as well as figures to support your economic position. He's a good man to have on the bargaining team, or at least as an advisor.

Grievance files can be useful in revealing sources of contract trouble. Muskegon Piston Ring Co., Muskegon, Mich., files each grievance by subject as it's processed. In preparing for negotiations, management looks at the fattest files first.

Front-line supervisors often have keen insight into what contract changes are needed. Wolverine Tube calls in its foremen 30 to 60 days before a contract expires, to ask them what provisions have caused trouble and what changes would be helpful.

Although many firms believe foremen can do this best in writing, one labor consultant recommends a conference. "Many times," he says, "a foreman will propose a change that would be harmful to another department. When the foremen are together, they can see why a change should or shouldn't be made. This avoids hard feelings among the foremen when you make your final decision."

Be sure you know bargaining patterns in your area. If you get too far above the line, you'll lose friends in other companies. If you drop be-

low, you may be on the way to downgrading your work force. G. B. Strong, assistant manager of employee relations, American Brake Shoe Co., Chicago, cites a contract that was beneficial to a company but lower than the area average. Result: Topnotch workers drifted away, and the firm was left with labor culls.

It's also wise to consider the pattern of agreements in your industry, as well as what big-company pattern setters do. Warns Ken Porter of the Employers Association of Detroit: "Don't just take the pattern as is. What works for General Motors, or for your competitor in another state, will never quite fit your situation. Bargaining patterns must be adapted to work successfully."

You should know the union's philosophy, its aims, and how it's going to react to your proposals. It's also helpful to know how the union's bargaining team operates. Professor William Haber, University of Michigan economist and labor arbitrator, thinks the union's international representative is a key man to watch, because he's more objective than the others. Professor Haber cites the case of a small Michigan metalworking firm whose union bargaining team showed the international man five demands it sought. Advised the representative: "Don't ask for number three. The company's so scared of you, it'll probably give in. It would break them, and you'd all be out of jobs."

The management bargaining team should be small, diversified, and made up of men the union knows and respects. Most industrial relations men feel it's unwise to include the company's president unless bargaining is his specialty—and generally, it isn't.

Role playing is an effective method of preparing the team for actual bargaining. Regular bargaining procedure should be followed, with one group taking the union side and the other arguing for management. Such sessions help the team get the feel of how the union will approach negotiations, give it a chance to become better acquainted with contract demands, aid in setting up counterproposals, and bring weak points to light.

In making your contract work, your attitude toward it is most important. It's a business agreement and must be treated like one, say industrial relations experts. Larger firms, of necessity, have to be more impersonal in administering their contracts—that's why they are long and detailed. Small companies too often go the other way. Many small businessmen say: "We have such a good relationship with our men we don't really need a contract. We just sign to keep the union happy."

In the opinion of a prominent labor relations advisor, this view is shortsighted. "These outfits forget that the union men they get along with so well today may be replaced tomorrow by militant leaders who will stick to the contract like leeches."

"Climate" is important, but be sure it's climate with clauses, he advises. When you say what you mean and mean what you say, the job of making your contract work will be easier. A good rule is to write your contract tightly and interpret it liberally. ♦

The Growing Role of Trade Associations

By Alfred G. Larke

Condensed from Dun's Review and Modern Industry

Be it ever so humble, there's nothing quite like the American trade association. And some of them do appear pretty humble in terms of staff, budget, and membership. But whether a trade organization covers a group of farm equipment retailers or an industry with annual sales in the billions, the services it renders are vital to members—so much so that the trade association seems to be becoming almost like another staff operation of each member enterprise. One big association, for instance, is reported to have saved a member company about $200,000 last year just by relieving the company of answering requests for information from the public.

In the case of a retail farm equipment concern in Paragould, Ark., its president, Earl E. Kirk, declared flatly, "I sincerely believe that the success of every phase of my business is directly traceable to the services that became available to me when I became an association member." His group, the National Farm Equipment Association, had given him advice on such matters as accounting, service shop operation, sales promotion and advertising, business management, and building plans.

To serve its members effectively, an association does not need a large membership or an elaborate staff, nor does it have to engage in a great number of activities. The National Association of Blueprint & Diazotype Coaters, for instance, with a membership of 30 companies out of a possible 45, has a Washington staff of two—Preston B. Bergin, executive secretary, and his secretary. Yet, in the past year, it has proposed and had accepted standards for the industry's products. It has studied freight rates and acted upon the study—to the end that the industry, it estimates, will save one half to three quarters of a million dollars a year. This year it expects to make available a "sensitometer," which will permit users of all papers to obtain uniform results in their reproductions of originals. Its budget? About $50,000 annually.

Perhaps some of its larger members could accomplish these results on their own. But it is certain that, with each member company acting for itself, the industry could not have carried out these tasks so inexpensively.

An impressive feature of today's trade associations is the extent of their coverage of all trades and industries and the variety of their activities. They're a peculiarly American institution because of the means they provide for direct competitors to

Dun's Review and Modern Industry (March, 1958),

cooperate. The trade groups have worked out ingenious methods for pooling information about members' operations—without betraying data that might give one enterprise a competitive advantage over another. This exchange is a constant source of ideas and information for the nation's business management.

Lobbying—though still an important function of most associations—is far from being the major activity of the typical group. In a prospectus of association activities for 1957-58, Jay Judkins, chief of the Trade Association Division of the Department of Commerce, lists the various kinds of government representation *after* five other activities. All national trade associations, he says, will (1) function as the nation's centers of information on their particular industries, (2) keep in close touch with all related industries, (3) issue bulletins—usually monthly—on business trends, legislation, trade statistics, labor relations, and other specialized subjects, (4) prepare booklets and annual data, and (5) arrange frequent conferences of members on current industry problems.

Judkins lists some 80 activities in all. Of course, it is doubtful whether any one association—even the Association of American Railroads, with a staff of more than 600, or the National Association of Retail Grocers, with 110,000 members—will undertake all or even most of them. But the mere fact that there are so many emphasizes the impressive variety of activities that trade associations are undertaking.

There has also been a trend in recent years to trade association mergers. In some cases they have paralleled corporate mergers in allied fields, and some association executives foresee more. But the major trend, indisputably, is toward still more growth. The number of trade associations will increase. Activities will spread out, especially in such areas as research into raw material sources and market trends, management- and employee-training programs, industry promotion, and provision of data for long-range planning.

At the last count, mid-1957, there were 12,200 trade associations, of which 1,700 were national. In 1920, there were 2,000, with 600 of them national in scope, Judkins estimates.

What constitutes a large or a small trade association can be defined in clear-cut terms only by size of staff or budget. Even then a comparatively small staff may administer a pretty large budget, depending upon the services the association performs. Many of the 10,500 local associations have only a part-time executive. Even among the 1,700 national associations, at least half have four or fewer persons on their staffs. Yet in a recent survey of 243 trade associations, Roscoe C. Edlund, association specialist with Rogers, Slade & Hill, turned up one with an annual budget of more than $6 million and seven in the $1-million-or-more class.

From the viewpoint of how much service they give their members, associations vary widely. They also vary in dues. Edlund found an association with dues of 4 per cent of sales volume, and another with dues

of 1 per cent, with an increase to 3 per cent under consideration. These associations cover industries severely threatened by competition from other kinds of products. Their heavy assessments go primarily into product promotion. The Department of Commerce, reporting on all kinds of associations, says cost of membership is "usually" about 0.1 per cent of sales. In a big association like the American Iron & Steel Institute the ratio of dues to sales is in the range of thousandths of 1 per cent.

One factor that permits big associations to keep dues ratios down, despite big budgets, is, of course, the tremendous volume of sales against which the dues are assessed. But the voluntary services the associations obtain free from top executives of member companies are probably just as important.

As tax-exempt organizations, trade associations come under the very watchful eye of the Internal Revenue Service. According to the ASAE *Journal,* the IRS has been tightening up on allowable activities for trade associations that want to retain their tax-exempt status. Roughly, the criterion for tax exemption is whether or not the service performed is available from a commercially operated enterprise.

According to several surveys made in recent years, trade associations have enlisted the membership and support of about 75 to 80 per cent of the industries they cover. They obviously have wide opportunities for service, and many are taking greater advantage of them each year. There seems little doubt that trade associations stand to become—indeed, some have already become—almost indispensable to the successful operation of their members' enterprises. ♦

The Case Against Suggestion Systems

NOT ALL COMPANIES are in agreement that an employee suggestion system is a useful thing. One emphatic dissent came recently from the Dow Chemical Co. (Midland, Mich.), which gave its employees these reasons for not instituting a suggestion plan:

1. Although suggestion systems can be successful in essentially mechanical operations such as automobile plants, they don't lend themselves to complex process operations like chemical plants.
2. Suggestion systems emphasize one man's idea. To adopt such a system would run the risk of tearing down the teamwork spirit at Dow.
3. Money-paying suggestion systems have harmful effects that are often ignored: jealousy and bickering, for example, when the same idea is turned in by two people at about the same time.
4. A suggestion system tends to destroy initiative, because normally 75 or 80 per cent of the ideas offered are turned down for various reasons. Repeated rejections of ideas tend eventually to discourage the individual from contributing.
5. The administrative procedure involved in a suggestion system is extremely complex and expensive.

—*Employee Relations Bulletin* 3/12/58

PARKINSON looks at RETIREMENT

By C. Northcote Parkinson
Condensed from The Economist

AT WHAT AGE should a man retire? This problem has been the subject of many commissions of inquiry, but the evidence heard has always been hopelessly conflicting. Where the retirement age is fixed at 65, successors of the man who retires will always have found, by experience, that mental powers and energy show signs of flagging at 62.

This would be a most useful conclusion to have reached had not a different phenomenon been observed in organizations where the age of retirement has been fixed at 60. There, we are told, people are found to lose their grip, in some degree, at the age of 57. Similarly, all men whose retiring age is 55 are known to be past their best at 52. It would seem, in short, that efficiency declines at the age of R minus 3, irrespective of the age at which R has been fixed. This is an interesting fact in itself, but not directly helpful when it comes to deciding what the R-age is to be.

It may, however, serve to suggest that the investigations hitherto pursued have been on the wrong lines. Let us therefore struggle to set them along the right ones. The fact is that the age of retirement should not be related in any way to the man whose retirement we are considering. It is his successor we have to watch.

According to our researches, a businessman will pass through the following stages in a successful career:

1. Age of qualification = Q
2. Age of promotion = P (Q + 10)
3. Age of authority = A (P + 8)
4. Age of achievement = AA (A + 7)
5. Age of distinction = D (AA + 9)
6. Age of dignity = DD (D + 6)
7. Age of wisdom = W (DD + 3)
8. Age of obstruction = OO (W + 7, which is also Q + 50)

The above scale is governed by the value of Q, which is to be understood as a technical term. It does not mean that a man at Q knows anything of the business he will have to transact. It is the age at which a professional or business career begins, usually after an elaborate training which has proved profitable only to those paid for organizing it. It will be seen that if Q = 22, our businessman (let us call him X) will not reach 00 (the age of obstruction) until he is 72. So far as his own efficiency is concerned, there is no valid reason for

From The Economist (London) by permission of Houghton Mifflin Company, who published Parkinson's Law and Other Essays in Administration (1957).

replacing him until he is 71. But our problem centers not on him but on Y, his destined successor. How are the ages of X and Y likely to compare? To be more exact, how old will X have been when Y first entered the department or firm?

This problem has been the subject of prolonged investigation. Our inquiries have tended to prove that the age gap between X and Y is exactly 15 years. Taking this average of 15 years, and assuming that Q = 22, we find that Y will have reached AA (the age of achievement) at 47, when X is only 62. And that, clearly, is where the crisis occurs. For Y, if thwarted in his ambition through X still retaining control, enters, it has been proved, a different series of stages in his career, following upon stage 3. These stages are as follows:

4. Age of frustration (F) = A + 7
5. Age of jealousy (J) = F + 9
6. Age of resignation (R) = J + 4
7. Age of oblivion (O) = R + 5

When X, therefore, is 72, Y is 57, just entering on the age of resignation. Should X at last retire at that age, Y is quite unfit to take his place, being now resigned (after a decade of frustration and jealousy) to a career of mediocrity. For Y, opportunity will have come just ten years too late.

The age of frustration will not always be the same in years, depending as it does on the factor Q, but its symptoms are easy to recognize. The man who is denied the opportunity of making decisions of importance begins to regard as important the decisions he is allowed to make. He becomes fussy about filing, keen on seeing that pencils are sharpened, eager to insure that the windows are open (or shut), and apt to use two or three different colored inks. The age of jealousy reveals itself in an emphasis upon seniority: "After all, I am still somebody." "I was never consulted." "Z has very little experience." But that period gives place to the age of resignation: "I am not one of these ambitious types." "Z is welcome to a seat on the Board—more trouble than it is worth, I say."

The problem, it is now clear, is to make X retire at the age of 60, while still able to do the work better than anyone else. The immediate change may be for the worse, but the alternative is to have no possible successor at hand when X finally goes. And the more outstanding X has proved to be, and the longer his period of office, the more hopeless is the task of replacing him. Those nearest him in seniority are already too old and have been subordinate for too long. All they can do is to block the way for anyone junior to them: a task in which they will certainly not fail. No competent successor will appear for years, not at all until some crisis has brought a new leader to the fore.

So the hard decision has to be taken. Unless X goes in good time, the whole organization will suffer. *But how is X to be moved?*

The need is to emulate in business a custom once well known in African tribes: that of liquidating the chief at a certain point in his career. In this, modern science is not at a loss. In days gone by it was usual, no doubt, for directors to talk inaudibly at board meetings, thus convincing the chairman that he was actually go-

ing deaf. But there is a modern technique which is far more effective and certain. The method depends essentially on (a) *air travel,* and (b) *the filling in of forms.* Research has shown that the high official who is given enough of each will very soon begin to talk of retirement.

The opening step in this technique is to lay before the great man a program: consisting, say, of a conference at Helsinki in June, a congress at Adelaide in July, and a convention at Ottawa in August, each lasting about three weeks.

The essence of the technique is so to arrange matters that the conferences are held at places the maximum distance apart and in climates which offer the sharpest contrast in heat and cold. There should be no possibility whatever of a restful sea voyage in any part of the schedule. It must be air travel all the way. No particular care need be taken in the choice between one route and another. All are alike in being planned for the convenience of the mails rather than the passengers. It can safely be assumed, almost without inquiry, that most flights will involve take-off at 2:50 A.M. Arrival will be scheduled for 3:10 A.M. on the next day. Going one way round the world it is possible and indeed customary to have breakfast about three times. In the opposite direction the passenger will, with any luck, have nothing to eat for hours at a stretch.

It will be observed that air travel, considered as a retirement accelerator, has the advantage of including a fair amount of form filling. But form filling *proper* is a separate ordeal, not necessarily connected with travel. The art of devising forms to be filled in depends on three elements: (a) *obscurity,* (b) *lack of space,* and (c) *the heaviest penalties for failure.*

Experiment has shown that elderly men in responsible positions will soon be forced to retire if given sufficient air travel and sufficient forms. But a serious problem remains. What are we ourselves to do when nearing the retirement age we have fixed for others? *It will be obvious at once that our own case is entirely different from any other case we have so far considered.* We do not claim to be outstanding in any way, but it just so happens that there is no possible successor in sight. It is with genuine reluctance that we agree to postpone our retirement for a few years.

When it comes to forcing our own retirement, our successors must find some method of their own. ♦

PERSONNEL RECRUITERS who love to dwell on the warmth, the security, the unit spirit to be found on the "team" of their particular corporation will doubtless be unsettled by a recruiting advertisement for engineers put out recently by Sylvania Electric Products, Inc. "YOU DON'T GET LOST IN A 'TEAM' AT SYLVANIA," announces the headline. "You don't have to submerge your individual abilities and character," the ad assures. "We encourage cooperation, of course, but this doesn't stop us from permitting—and encouraging—each man to get ahead as fast . . . as his abilities will take him."

—*Fortune* 4/58

The upsurge in higher education poses important questions for business . . .

Coming Problems of AN EDUCATED WORK FORCE

By Stanley F. Teele
Condensed from Western Business Review

THE VIOLENT EXPANSION of both population and higher education since World War II is confronting businessmen and educational leaders with an urgent challenge—a challenge that can be met successfully only through the constructive cooperation of these two groups.

Two basic developments have pushed today's problems of business and education into the spotlight:

1. Only a generation ago, college-trained men were rare in the top echelons of our leading business organizations. Today, more than two-thirds of the nation's key executives have at least an undergraduate degree, and the proportion is steadily rising. Also, almost 90 per cent of this country's 500 largest corporations now sponsor educational programs of their own. Colleges and universities all over the country have established special courses of instruction for both experienced and prospective business managers. Thus, the past two decades have firmly established the mutual dependence of business and business education.

2. The population upsurge of the past 15 years is speeding up a corresponding upsurge in education. By 1970, there will be 70 per cent more young people of college age than there are now. By contrast, the number climbed only 50 per cent between 1900 and 1955. To compound this problem, a substantial increase in the percentage of college-age men and women who actually attend college will be coupled with this population growth. At the present time, roughly 30 per cent of this age group goes to college. Some forecasts for the next 12 to 15 years raise this figure to as much as 45 per cent.

These trends face businessmen with two large questions:

1. *To what extent should business help to finance this country's private colleges and universities?*

The number of students enrolled in universities and colleges today is just about evenly divided between public and private institutions. However, a definite trend favoring the public, tax-financed institution has been developing for some time. In

1929-30, two-thirds of the students regularly enrolled for higher education were in privately endowed universities and colleges. Today, without important new financial support, the private sector of our educational system will soon be able to accommodate not more than one-third of the students, and this could drop to one-fifth.

If the 20 per cent of students who are graduated from the private colleges and universities are of top caliber, the private sector of higher education will still be competitive with the public sector. But if, for lack of adequate financing, the quality drops with the quantity in privately endowed schools, then true competition will be impossible. There seems little doubt that the quality of our higher education would ultimately deteriorate under these conditions.

Thus, a question that must be faced squarely by top management is:

Is business prepared to help the private universities carry their full share of the educational load and maintain the standards of quality which result from the keen competition these private schools have traditionally provided?

2. *What new problems in employee relations will be created by the vast increase in higher education?*

Today, 80 per cent of our working population have high school educations; 30 per cent have attended college. It is expected that in another 15 years as many as half of the young people setting out to earn a living will have college degrees. Obviously, under the law of supply and demand, the advantage—in terms of salary—that the college or university graduate has traditionally commanded will shrink, despite the fact that the proportion of white collar workers in the labor force is expected to grow as automation spreads. Moreover, many college-trained people may have to work at jobs which in the past they would have considered far beneath them—e.g., clerks, mechanics, construction workers.

Educators fear that a great many workers may be frustrated by this situation. Similar disappointments have been experienced by foreign graduates of our universities who have returned to their homes in India or China only to find that business and society in their countries are not organized to utilize their talents fully. To prevent such conditions from occurring in this country, business management and the universities should explore this problem together now.

One approach to the problem that will virtually be forced on management by the growing body of educated workers is the speedy application of automation throughout business. This will create more jobs in which workers can use knowledge, concepts, and systems, rather than manual skills and experience.

What is it going to mean in terms of organizational changes to have college graduates filling the bulk of our management positions? Many of these men and women will have special degrees in engineering, industrial relations, or business administration. They will be accustomed to independence in their thinking and planning, and in many cases will be unfamiliar with the discipline that goes with group decision making.

Managers and union leaders alike will have to come to grips with the tough problem of fitting the "individual contributor"—the man with professional and technical training—into organizations which so far are not geared to handle him.

One of the biggest jobs ahead for management is the rewriting of personnel policies to fit this new situation. In undertaking this task, management and labor may find it necessary to develop a type of cooperation as new as the problem they will be called upon to solve.

These are some of the new personnel problems that all management will face when it deals with an educated work force. Attempts to develop solutions are already under way. How fast and how broadly they continue will depend on the joint efforts of both businessmen and educators, and on the wisdom behind their decisions in the years immediately ahead. ◆

New Fringes on Old Benefits

WHILE NEW TYPES OF FRINGE BENEFITS have been getting the headlines in recent years, some startling changes have been quietly taking place in two benefits that have long been standard in nearly all union contracts —paid vacations and paid holidays. Employers have been steadily granting longer vacations and more paid holidays to their employees—and, it appears, at an ever faster pace.

Until recently, the average employee was entitled to a week of vacation after one year of service, two weeks after five years, and—occasionally—three weeks after 15 or more years. A week's vacation after a year is still the rule, but two weeks after two or three years is now almost as common as two weeks after five years. And an increasing number of contracts are granting three weeks' vacation after less than 15 years service (usually 10). Four-week vacations, generally after 25 years' service but sometimes after 20 years or less, are turning up more frequently in contracts, and recently several malt houses in Milwaukee and Washington, D. C., granted five-week vacations in negotiations with the Brewery Workers.

Equally impressive is the steady increase in the number of paid holidays. As recently as 1955, the most commonly found number of paid holidays was six. Now, nearly two-thirds of all contracts call for seven or more paid holidays.

The acceleration of the trend toward more paid holidays is clearly shown by comparing the distribution of paid holidays in 1948, 1955, and 1957. The proportion of contracts providing seven or more holidays increased by 13 percentage points—from 25 to 38 per cent—between 1948 and 1955, as against 25 percentage points—from 38 to 63 per cent—between 1955 and 1957. Thus, the increase in the number of companies granting seven or more paid holidays was substantially greater during the two years between 1955 and 1957 than during the preceding seven years.

—*Labor Policy and Practice* 3/6/58

Inflation-Proof Pensions

By Geoffrey N. Calvert

Condensed from American Business

Is THERE a satisfactory solution to the problem of adjusting employee pensions to inflation? Although a variety of flexible funding plans exists, one seems to promise the most advantages for both employees and their employers: the plan that is adjusted to the rise and fall of a cost-of-living index.

Many managements have almost instinctively rejected this approach to pensions because the costs cannot be precisely known in advance. Properly drawn, however, a cost-of-living plan of this type subjects the employer to very little risk. These are the important factors to consider:

1. The funding in this type of pension is planned on the basis of rising prices, which, over the long term, are fairly well charted. A fund so invested as to generate capital gains on a long-term basis may well be able to match the increases in living costs and hence in pensions. If this is accomplished, the cost-of-living features of the plan would involve no extra cost.

2. A consultant can provide safeguards in any plan he helps a company set up. For example, if the pension is geared to a moving average based on the consumer price index, a 5 per cent limit may be placed on the growth in pensions from one six-month point to the next. Thus, the employer is protected in case of runaway inflation. (Actually, a 5 per cent limit would have contained every short-term inflationary situation which has arisen in this country in the past 130 years.)

3. The rapid depletion in the number of surviving pensioners reduces the problem of yearly increases in benefits after retirement to a much more manageable scope than many employers realize. For example, of 100 pensioners who retire at age 65, only 70 are still alive at age 75, and only 29 remain at age 85.

4. The cost-of-living feature may permit a more modest basic pension. The "final-average" earnings concept, in which the pension is based on the employee's pay during the last five or

ten years of work, for example, has grown increasingly popular in pension planning in recent years. Yet this is clearly little more than an attempt to compensate the employee for inflation that takes place during his 20 or 30 years on the job, and in itself poses certain risks to employers.

A "career-average" plan based on the employee's *entire* period with the company, on the other hand, may actually serve the pensioner's needs better if it is combined with a cost-of-living feature, because it permits adjustment in the plan after retirement. This type of plan may ultimately cost the employer less.

5. Employers eventually have to pay cost-of-living increases in any case. Determined though they may be to hold the line on pension costs, inflation finally makes any fixed pension look inadequate. Pressures for upward revision mount, often at a time when the company can least afford additional commitments, especially if they involve retroactive costs. A cost-of-living pension plan involving no abrupt readjustments is thus a convenience to employer as well as employee, since it actually permits a more reasonable and realistic estimate of what pensions are likely to cost over the next five or ten years.

Even on a short-term basis, many current pension plans can be converted to a cost-of-living basis at small or no extra cost. Managements hard-pressed by narrowing profit margins may be able to make the conversion by modifying expensive and little-needed features that exist in the present plan.

Employees, for example, generally prefer a flexible retirement-age policy, which enables them to work a few years past 65 if physically and mentally capable; and many companies also find it profitable to retain their experienced talent. This can be important to the pension picture, since by advancing the average retirement age only two years, to 67, a company saves over 15 per cent of total pension cost.

Similarly, lengthening the waiting period before the employee joins the pension plan by a year or two can provide an important cost saving. Most employees will find this a small sacrifice to make in return for the valuable cost-of-living feature.

The investment policy itself, finally, is the real key to the costs of any funding plan. There is an almost infinite number of ways in which pension funds may be invested for eventual capital gain and to bring increased yield (each extra ½ per cent of earned income can cut total cost of the pension about 12 per cent, for example).

The problem, of course, is to obtain these capital gains and higher yields without subjecting the pensioner to undue risk and fluctuation in his income. No generalization can be made. Each company has a different financial policy and different employee-security needs, hence a different potential for pension savings. ♦

A GOOD LEADER inspires other men with confidence in him; a great leader inspires them with confidence in themselves.

—Anonymous

The growing number of employee credit unions are helping workers to solve their own financial problems . . .

Credit Unions Prove Their Worth

Condensed from Factory Management and Maintenance

EMPLOYEE CREDIT UNIONS, once barely tolerated by management, are enjoying a boom in which they are clearly demonstrating that they can be of significant help in improving employee performance.

A survey of the 7,741 credit unions in the manufacturing industries, made recently by the Credit Union National Association, points up four major benefits derived from credit unions:

1. Fewer employee money problems.
2. Higher worker morale.
3. Greater productivity.
4. More leadership development.

To form a credit union, a group of employees puts money into a pool and then makes loans at low cost to members. Records are kept by a paid bookkeeper or manager, and volunteers do the rest of the necessary work.

Loans are made on the basis of character; as a rule, no collateral is required. Most companies provide rent-free quarters for credit unions. Some provide personnel for the administration of the credit union, but ordinarily management does not interfere in credit union affairs.

About 9,000 of the 17,000 credit unions in the U.S. are chartered by states. The others are chartered, examined, and supervised by the Bureau of Federal Credit Unions of the U.S. Department of Health, Education, and Welfare. Special requirements for federal credit unions are that (1) unsecured loans may not exceed \$400, (2) no loan may run for more than 36 months, and (3) interest may not exceed 1 per cent per month on unpaid balance.

The extent to which credit unions have been flourishing recently is strikingly shown by 1956 figures. In that year, credit union assets grew 24 per cent to a total of \$3.3 billion, and membership grew to 9.1 million. Credit unions lent an average of \$261 to each borrower and members saved an average of \$328 through share purchases.

According to many companies, credit unions today do a job that management, in spite of streamlined employee relations programs, has been unable to accomplish. For example, F. J. Hekman, vice president of the Palmer Engine Co. (Cos Cob, Conn.), says, "Before the credit union was started we were continually bothered by requests for advances from employees who were not only in debt but were being harassed by high-rate loan organizations. We tried to help, but our help was not anywhere near as effective as the help that the credit union has given. The savings of our credit

Factory Management and Maintenance (April, 1958),

union members add up into the ten thousands. We feel that the financial security our men have gained has added to our production."

The same story is heard from another manufacturer, the Bastian-Blessing Co. (Chicago). President L. G. Blessing reported to stockholders, "Our credit union has proved extremely beneficial to employees and company. Quite a number of employees were victims of lenders charging 36 per cent or more annually. This resulted in wage assignments, worry to their families. Now the problem has practically disappeared."

The Skil Corp. (Chicago) found the credit union a help in solving problems caused by its retirement profit-sharing plan. Some employees who had $1,000 or more in the plan, and were short of cash, wanted to withdraw the money. However, this was not allowable under the law. Now the credit union grants these employees low-cost loans, and they no longer feel the need to withdraw money from the retirement fund.

One major use of credit union funds is to make large loans to consolidate smaller debts. A dramatic example of how this benefits management is provided by D. E. Preston, engineer in charge of bonus rates at Union-National Co. (Jamestown, N.Y.), and also credit union president. Preston reports, "We had one man who was not making a bonus, and I finally asked him the reason. He told me he had so many collectors to worry about that his mind was not on his work. He had 20 different charge accounts. We lent him enough money to pay all bills, and his production rose 40 to 50 per cent."

An intangible benefit of credit unions pointed out by some companies is the development of leaders through training as members of the credit union's administrative group. J. P. Duffy, manager of industrial relations at Avien Engineering Co. (Woodside, N. Y.), says, "The program has developed a group of leaders and given rank-and-file employees good insight into management financial problems."

A similar report comes from the Crown Cork & Seal Co.'s Los Angeles plant manager, A. L. Lichtenstein, who says, "We are most proud of the people who have organized and handled credit union business. Many of them have gone to school, taking courses that have made them more valuable to us." ♦

DESPITE GOVERNMENT EFFORTS to discourage them, business mergers are continuing at about their usual rate. Acquisitions reported in 1957 came to 941, as against 905 the year before. Going against the over-all trend were manufacturing and mining businesses (598 mergers last year as against 638 in 1956) and retail and wholesale businesses (114 last year as against 148 in 1956).

—*Steel* 2/17/58

BRIEF SUMMARIES
of other timely articles

GENERAL

ECONOMIC GROWTH IN THE UNITED STATES: ITS PAST AND FUTURE. (Committee for Economic Development, 711 Fifth Avenue, New York 22, N.Y.) 50 cents. Appraising the record of economic growth in the U.S. since 1880 in terms of the enlarged labor force, increased output-per-manhour, technological advancement, specialization of occupation, and the improved quality of business management, this pamphlet concludes that—barring some radical change in the society—the trend will extend into the future. However, they warn, beneficial economic change would be stifled by acceptance of such proposals as the call for government subsidy for industries adversely affected by technological change, union demands for shorter hours with unchanged pay, and the cry for higher tariffs by industries with declining markets. Graphs.

THE AMERICAN FACTORY: TODAY AND TOMORROW. *Dun's Review and Modern Industry* (99 Church Street, New York 8, N.Y.), April, 1958. Reprints 30 cents. This special 70-page section offers a comprehensive appraisal of the whole problem of manufacturing facilities. Included among the articles are a discussion of the need for up-to-date facilities; a four-point pattern for decision-making on the what, when, and where of new-plant building; case studies of companies that showed unusual foresight and imagination in building their new facilities; and pieces on plant location, modern factory design, lighting, air conditioning, and materials handling.

CONSUMER BUYING. By Clement Winston. *Survey of Current Business* (Superintendent of Documents, U.S. Government Printing Office, Washington 25, D.C.), April, 1958. 30 cents. This review of recent developments in consumer buying trends evaluates the heavy declines in the purchases of automobiles, major appliances, and clothing, and the relative stability of nondurable goods and services. Pointing out that durable-goods expenditures are much more sensitive than other consumer purchases to changes in income, the author analyzes some of the long-range shifts occurring in the pattern of consumer spending and reports on the fluctuations of various sectors of the consumer market in the past few months.

SALES PROJECTIONS TO 1961-63 OF 734 PUBLIC CORPORATIONS. *Sales Management* (386 Fourth Avenue, New York 16, N.Y.), April 4 and April 18, 1958. Reprints 50 cents. These projections of anticipated average sales volumes during the period 1961-63 should be of particular interest to executives connected with the 734 leading corporations listed, those who sell to any of these corporations, and investors interested in long-range growth patterns.

REAPPRAISAL OF APPRAISALS. By Philip R. Kelly. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), May-June, 1958. Reprints $1.00. Does the conventional approach to appraisals, which is more concerned

with personality and character traits than with actual job performance, effectively promote sound managerial development? The author thinks not, and after analyzing the weaknesses in the conventional appraisal system he presents a three-step program for organization review: (1) developing a job description agreed on by both the manager and the individual concerned; (2) reclassifying the job on the basis of the description; and (3) re-examining, after a specified interval, mutual problems involved in improving performance.

INDUSTRIAL RELATIONS

MAJOR WAGE DEVELOPMENTS IN 1957. By Donald L. Helm and Richard G. Seefer. *Monthly Labor Review* (Superintendent of Documents, U.S. Government Printing Office, Washington 25, D.C.), April, 1958. 55 cents. Although wage increases went into effect in 1957 for more than 7½ million workers covered by collective bargaining agreements, report the authors, a substantial majority of these workers—almost 5 million—received increases provided for in long-term agreements concluded in earlier years. The number of workers receiving wage increases was somewhat larger than in 1956, and the increases themselves were appreciably greater—mostly because of cost-of-living escalator clauses. Tables.

TO SELECT EXECUTIVES—COMBINE INTERVIEWS, TESTS, HORSE SENSE. By Joseph G. Phelan and Gerald W. Smith. *Personnel Journal* (P.O. Box 239, Swarthmore, Penna.), April, 1958. 75 cents. Since 80 per cent of executive job failures are due to personality problems rather than technical incompetence, the authors recommend that selection be based on a comprehensive interview backed up by psychological testing that determines attitude and personality as well as intelligence and aptitude. Stressing an interview that takes the candidate's entire background into consideration, they illustrate how a prospect can be encouraged to tell his own story in his own words and the process of interpreting the information derived from the interview.

MEASURING ORGANIZATIONAL PERFORMANCE. By Rensis Likert. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), March-April, 1958. Reprints $1.00. Although virtually all companies regularly make measurements dealing with production, sales, and profits, says the author, much less attention is given to the "intervening factors" which significantly influence these results: employee loyalty, skills, motivations, and capacity for effective interaction, communication, and decision-making. He cites some recent research to support his conclusion that such measurements will show that authoritarian management may yield substantial and immediate increases in productivity, but only at a cost to the human assets of the organization, while participative management will produce better long-term results by building stronger loyalties and motivations.

OFFICE

HOW TO MAKE A COMPUTER WORK—AND PAY OFF. By William Ferguson. *Factory Management and Maintenance* (330 West 42 Street, New York 36, N.Y.), April, 1958. Reprints 35 cents. Providing a comprehensive look at how one company (Carborundum Co., Niagara Falls, N.Y.) successfully introduced a large-scale computer into its operations, this article points up some

of the basic problems that must be licked, such as (1) choosing between a broad-scale application and a piecemeal approach, (2) recruiting and training a data-processing organization, (3) reassuring employees about coming changes, (4) defining the new system down to the last detail, and (5) ironing out the inevitable bugs that occur during the early stages of the operation.

WHAT ARE THE NEW TRENDS IN INSURANCE, HEALTH PROTECTION, FOR OFFICE WORKERS? By Robert M. Smith. *Office Management* (212 Fifth Avenue, New York 10, N.Y.), March, 1958. 45 cents. The growth of medical catastrophe insurance and insurance against loss of income through prolonged illness, the development of health protection plans that can be maintained after retirement, and the availability of more insurance plans to employee groups of less than 25 persons are the most significant new trends in health insurance for office workers, says the author. In addition to discussing these developments, he describes the latest trends in retirement plans for office workers, reporting that pension trusts are gaining favor over the various types of annuity contracts offered by insurance companies.

WHICH PLAN FITS YOUR FURNITURE BUDGET BEST? *Modern Office Procedures* (812 Huron Road, Cleveland 15, Ohio), June, 1958. 50 cents. Important cost-saving tax advantages and other features of convenience and economy can make the rental of office furniture a paying proposition for many companies, according to this article. After describing how one company successfully utilized the renting method, it points out the tax savings possible, discusses some typical rental costs, and lists restrictions set up by the Internal Revenue Bureau to prevent lease plans from being used for tax evasion.

PRODUCTION

18 CHECKS ON MAINTENANCE COSTS. *Factory Management and Maintenance* (330 West 42 Street, New York 36, N.Y.), April, 1958. $1.00. To lick rising maintenance costs, airtight operational controls are needed, according to this article, which describes a system for auditing maintenance performance at 18 points in work progression, including work classification, inspection scheduling, overhaul scheduling, and performance analysis. Presenting a flowsheet showing the operation of the system, the article suggests that it can be helpful in (1) insuring ideal execution of maintenance procedures, (2) spotting the various reasons for poor performance, (3) cutting paper work and supervision, and (4) pinpointing areas where changes should be made.

SIMULATION: VERSATILE AID TO DECISION-MAKING. By S. Reed Calhoun and Paul E. Green. *Advanced Management* (74 Fifth Avenue, New York 11, N.Y.), April, 1958. $1.00. Although it is only approximate and can be time-consuming unless a computer is available, "Monte Carlo" simulation can be an important aid in the analysis of industrial production problems, say the authors. After describing the steps involved in a typical simulation analysis, they present a case history showing how the technique was successfully applied to the problem of determining when open hearth furnaces in a steel mill should be shut down for rebuilding with least loss of production. Illustrated with charts.

HANDLING IN 9 OF THE NATION'S SAFEST PLANTS. *Flow* (812 Huron Road, Cleveland 15, Ohio), April, 1958. 50 cents. Emphasizing the theme that good materials handling means a good safety record, this special section describes the handling techniques used

in nine plants which have won National Safety Council Awards for unusually excellent safety records. A number of methods of achieving safety through better handling are reported, including the use of mechanization wherever possible, unceasing vigilance in looking for unsafe conditions, and safety competition with other plants.

HOW TO WRITE AND USE A PURCHASING MANUAL. By W. Evert Welch, Stuart F. Heinritz, and John Van de Water. *Purchasing* (205 East 42 Street, New York 17, N.Y.), March 31, 1958. 75 cents. Built around the premise that a carefully planned and written statement of purchasing policy will go a long way toward making a purchasing department more efficient, this special three-article section takes a look at some of the factors that must be considered in developing a purchasing manual. Included are a check list to help a company determine what should go into its manual and an article on the problems of getting the manual accepted and used.

MARKETING

THE REVOLUTION IN THE JOB OF SELLING. By Joseph Lorin. *The American Salesman* (353 Fourth Avenue, New York 10, N.Y.), April, 1958. 50 cents. The rapidly increasing diversification of merchandise in retail stores—with supermarkets selling apparel, five and dime stores selling television sets, and discount houses selling soaps and detergents—has also revolutionized the job of the salesman, believes the author. Along with greater opportunities there is now more competition than ever, and he suggests that the salesman must sell merchandising ideas along with his product and fit his sales talk to the store image his prospective customer is trying to build.

SURVEY OF BUYING POWER. *Sales Management* (386 Fourth Avenue, New York 16, N.Y.), May 10, 1958. $5.00. This special 820-page issue contains *Sales Management* magazine's annual survey of three basic market factors —population, income, and retail sales—broken down by city, county, metropolitan area, state, and region. Additionally featured are a section of Canadian data, statistics on the farm market, a special section on TV homes, and a new four-way index designed to lead the new user directly to the data he is looking for.

SALES SUPERVISION: TIME FOR A CHANGE? By Harold J. Leavitt. *Dun's Review and Modern Industry* (99 Church Street, New York 8, N.Y.), April, 1958. 75 cents. Although most business management is getting quieter, smoother, and more professional, sales management still stands outlined in neon, dressed in tinsel, and heralded by jazz, observes the author. Pointing out that hot, jazzed-up sales supervision serves a definite purpose in giving the doubtful salesman emotional support and a feeling of respectability, he nevertheless believes that "cool" supervision —if properly applied to the right kind of personality—can also be successful.

MEMO TO MANUFACTURERS FROM RETAILERS. *Printers' Ink* (205 East 42 Street, New York 17, N.Y.), April 11, 1958. 25 cents. Advertisers would do well to re-evaluate their merchandising aids to retailers, judging from the survey of leading department stores throughout the country reported in this article. Some of the most frequently expressed needs were for closer cooperation from the advertiser, more sales-training programs, more co-op local newspaper advertising, regular visits by regional representatives, and display material tailored specifically to the needs of individual stores.

FINANCIAL

BUDGETARY CONTROL FOR FIRST LINE SUPERVISION. By R. D. Richardson. *Cost and Management* (31 Walnut Street South, Hamilton, Ontario, Canada), April, 1958. 50 cents. A system of budgetary control for first-line supervision can be an important aid in winning the foreman's enthusiastic co-operation in achieving over-all company objectives, says the author. In this article he discusses some of the important steps involved in bringing the foreman into the budgetary act: (1) designing a budget system for the foreman's specific needs, (2) using budget specialists trained to work with foremen, (3) using variable budgets to provide for changes in conditions, (4) building a target element into the foreman's budget, and (5) reviewing the over-all budget with the foreman.

HOW TO ACHIEVE FLEXIBILITY IN PENSION AND PROFIT-SHARING PLANS. By Alvin D. Lurie. *The Journal of Taxation* (147 East 50 Street, New York 22, N.Y.), April, 1958. $1.25. One of the more important considerations in developing a pension or profit-sharing plan is its flexibility when circumstances force the suspension or discontinuation of contributions or when a merger upsets the plan, says the author. In this article he discusses some ways in which a company can maintain flexibility even in pension plans and still meet tax requirements for qualification.

TRY BUDGETING FOR RETURN ON CAPITAL EMPLOYED. By George Moller. *The Controller* (2 Park Avenue, New York 16, N.Y.), March, 1958. 65 cents. For those companies that accept the concept of return on capital employed as a measuring stick for managerial performance, it seems only logical to project this yardstick from reporting actual results into the planning of future operations, says the author. In this article, he discusses the advantages—particularly for decentralized companies—of using return on capital employed as a planning tool, and describes how this concept will affect handling of such areas as accounts receivable, inventory, and fixed assets.

INSURANCE

HOW COMPREHENSIVE ARE OUR COMPREHENSIVE GENERAL LIABILITY POLICIES? By A. L. Milstead. *The Weekly Underwriter* (116 John Street, New York 38, N.Y.), March 29, 1958. 25 cents. Despite the assumption by some insurance buyers that the comprehensive general liability policy on the market today is an "all-inclusive" policy, it is not and was never intended to be, says the author, pointing out that although it does provide single-policy coverage of many well-defined hazards and exposures, it has a number of limitations and exclusions. In this article he presents a detailed analysis of the policy's features, suggesting that the company with special problems should not depend on the basic coverage but should have the policy tailored to fit its specific needs.

LIABILITY FOR PERSONAL INJURY. By Richard J. Clark. *The Spectator* (100 East 42 Street, New York 17. N.Y.), April, 1958. $1.00 per year. Pointing out that business organizations are subject to critical financial losses from libel suits and other personal injury actions as well as from fire or theft, the author reports that long-needed personal injury insurance is now available in standard form. He gives the details of the new coverage, discusses the limitations and exclusions, and describes a typical premium arrangement.

Seven Deadly Sins of Executive Placement

(Continued from page 9)

up in smoke. "I couldn't even get this guy to go through a door before me," he reported. "We went into an Alphonse-and-Gaston routine every time, until I finally realized he wouldn't be happy if I didn't go through first. And he wasn't only doing it for my benefit; he was just naturally deferential to everybody."

How could this man be so successful in such a competitive field? As is often the case with problems whose solutions are right under one's nose, it took the consultant a while to find the answer: The detailer was successful *because* of his deferential nature, not in spite of it. As a layman calling on physicians to discuss professional matters, he could very easily have offended them by betraying any tendency to take his own limited technical knowledge too seriously. Because he naturally bent over backwards to avoid self-importance, he side-stepped the subtlest and most serious obstacle in his path.

Obviously, not every salesman is, or has to be, humble, and the insight that the consultant gained from his field trip could only be applied in very similar cases. But the important point is that the insight would never have been gained, nor the previous illusion shattered, if the consultant hadn't actually observed the man in action. In executive selection—as in any other form of shopping—it pays to have as specific an idea as you can of what you are (and are not) looking for.

SIN NO. 4: MAKING STOP-GAP APPOINTMENTS

When the most able men are deprived of the prospect of being able to exercise their innate powers fully, as a rule one of two things will happen: (1) they will search for better opportunities elsewhere, leaving the field to less capable and more easily contented men; or (2) they will stay but lose their morale, gradually allowing their standards of efficiency to dwindle into mediocrity. In either case, the net effect is the same: the organization becomes choked up with men of meager talent and meager spirit, who tend to become increasingly preoccupied with details and red tape.

Cutting off opportunities for capable men to advance is a form of slow but inexorable corporate suicide. Strangely enough, it happens most often under the guise of expediency. Often, hurried executive appointments that are made to fill an immediate opening result in a clogging of the executive pipeline—the avenue to increased responsibility for the men who can handle it.

The unpromotable executive creates no vacancies for ambitious younger men to fill, and if their ambition stagnates, so will the company—in time. For this reason, it is better to promote someone who isn't fully prepared for the immediate job, but can grow into and beyond it, than to appoint a fully trained man whose growth is already at its peak.

Obviously, not everyone in management is destined to become president, nor does everyone want to. Natural lines of specialization will usually become apparent as an executive matures and rounds out his experience. But the normal attrition of time should operate to maximize each executive's opportunity to perform at the highest level of which he is capable.

Planning the longer-range aspects of executive development must take into account the fact that the human personality is not a static thing. Over a period of years there are normal changes: growths or declines in interest, alterations of attitudes, even shifts of underlying motivation. There is, of course, a recognizable core that remains fairly constant throughout adult life; but as the pressures and rhythms of life itself change, the individual who is not bogged down in neurotic stagnancy will change with them.

The personality of the man who is going places in management has a disconcerting habit of refusing to hold still—which makes it impossible to "evaluate" it, pin a label on it, and file it neatly away. With men who have not yet reached their limit, the objective of periodic evaluations is to see what direction they're going in and to take a guess at how fast they're going, not to catalog them for all time.

Many "short-range" or "stop-gap" appointments are not made knowingly—they occur inadvertently, because of a failure to evaluate properly the growth factor (or the lack of it). Others are made because of a failure to recognize the extent to which a man's pre-

vious efficiency depended on habit or tolerant supervisors. These are subtle factors, difficult to measure with any accuracy, but they are often the intangible stuff of which a dead-end executive appointment is made. Bearing them in mind before making an appointment, and getting some estimate of the extent to which they may be operating, will often help to keep the executive pipeline clear to carry top talent toward top management smoothly and efficiently.

SIN NO. 5: "PIGEON-HOLING" PROSPECTIVE CANDIDATES

"Pigeon-holing"—classifying a man's potential entirely on the sole basis of his previous experience—is one of the most widespread sins in management. In many ways, of course, it is necessary and unavoidable. It is fruitless, for example, to speculate about a man's being "cut out" for a particular job when he lacks the background that would enable him to apply whatever gifts he has. But pigeon-holing can also be due to sheer mental laziness—to the regrettable fact that it is easier to oversimplify a complex problem than to try to keep many subtle factors in mind at once. Because of this, it is not infrequent for a young executive to become "typed" early in his career and shunted away from positions to which he may have made a much greater contribution than he makes to the job he is now handling in an acceptable—or even an outstanding—manner.

It was partly in recognition of this problem that the "rotating" type of training program—in which executive trainees spend some time in each of the main departments of a company—was developed. The hope is usually expressed that the trainee's natural bent will become apparent during the program. In practice, fortuitous factors still tend to influence the final assignments to some degree, but at least the exposure to a broad spectrum of assignments gives the trainees' best talents a chance to show themselves.

Planning for placement and development of the younger executive should be based on a broad, inclusive review of his potentialities. Complaints of a candidate's talents being wasted in a position that doesn't utilize them should be taken seriously, at least until objective evidence to the contrary is at hand. Assignments to positions

for which a candidate's experience is slim, but for which his talents and personal suitability are abundantly in evidence, should be hazarded when the facts favor them. The record of what a man has done thus far may shed no more than a glimmer of light on what he might do in the future, if he had the chance.

SIN NO. 6: DISREGARDING THE COMPANY "PERSONALITY"

In modern corporations, as in any group of people, some individuals tend to originate ideas to which the others tacitly subscribe, and which become the guiding principles for the actions of all of them. These pace-setting individuals will not necessarily be the ones who are in nominal command, nor will the principles necessarily be explicitly stated or even consciously recognized. But in order to survive as a distinct entity, the company must eventually evolve some kind of doctrine—a set of "ground rules," as it were—that enables each member to act in a manner that is consistent with the actions of the others in the group.

Companies in the same industries, competing in the same markets, can and do have widely divergent attitudes toward the ways in which their business should be carried out. And these company "personalities" can have a very important influence on the kinds of individuals who can work productively within them.

There is room in any company for many kinds of people, but not for every kind. The question of whether a particular individual can work productively according to the standards set by a given working philosophy must be decided individually, and not according to whether he fits a mathematical abstraction or rule-of-thumb. The individual who cannot—through sheer incapacity—or will not—because of incompatibility with his own standards or philosophy—operate in the way that a particular company expects of him is clearly not going to accomplish much for that company.

To be a gadfly or a member of the "loyal opposition" is one thing, but to be an obstructionist or to compromise with one's own ideals is quite another. The line between the two may be very fine, but it is also very important—particularly when the difference can be measured in large sums of money, as it almost always is with the choice of an executive.

A frank and intimate knowledge of the psychological atmosphere in which the candidate would be working is clearly necessary to insure proper executive placement, yet it is surprising how often this atmosphere is erroneously understood. Management often feels that its working philosophy is substantially the same as that of other companies in the field, or that it conforms to prevailing notions of what sound business practice ought to be like. In all probability, there are some important respects in which neither assumption is true, simply because of the enormous variety of individuals who put their personal stamp on the companies in which they work.

SIN NO. 7: OVERLOOKING PERSONAL COMPATIBILITY

If companies have personalities, so, certainly, do individual executives. The men who will be in harness with the new executive have much at stake in the issue of who will be chosen to work with them. People have a way of bringing out the best—or the worst—in each other; when men grate against each other's nerves, or simply leave each other limp and uninspired, they won't accomplish much as a team.

Trying to predict compatibility among individuals is a tricky business, but it can be done with some degree of accuracy when something is known of the personality make-up of the people involved. Research workers have made a start toward clearing up some of the mysteries surrounding the old adage that one man's meat is another man's poison, and the few principles that are known can be helpful in trying to decide what effect one person is likely to have on another.

Most people eventually develop fairly fixed notions about themselves that—although they may never be voiced—include a number of qualities that they either possess, aspire to, or, in some cases, affect. In any case, this "self-concept" becomes a bundle of fact and fiction that more or less guides the individual into the various habits and attitudes by which others come to know him.

Basically, people seem to be compatible when they help to make each other's self-concept seem more real; they are likely to be incompatible when one challenges—or actually gives the lie to—a key element in the other's self-concept. Take, for example, a man

who prides himself on his ability to turn a neat phrase, and another who fancies himself a connoisseur of articulateness; there's a fair chance that they'll get along famously, since each can feed the needs of the other. In contrast, two other men—one who affects a casual familiarity with all the current issues of the day and another who feels that any kind of ostentation is abhorrent—will sooner or later come to a parting of the ways.

Sensitivities and strengths

Fortunately, very few of us hold so many of the components of our self-concepts so inviolate that we are vulnerable to insults or "lack of understanding" from too many quarters. In fact, one mark of a mature individual is the capacity to rid himself of some of his grosser pretenses and learn to take the rest with a grain of salt. But nearly everybody has a hidden Achilles heel or two that somebody else can manage to wound.

When something is known of any special sensitivities of the individuals involved, as well as of their special strengths, some cautious educated guesses may be made as to how they'll get along. The good man who mysteriously seems to lose his spirit and effectiveness may simply be paired with the wrong kind of teammates. Some men, in fact, do their best work as "loners"; if they are assigned to a team, they either disrupt it or find that the team damages their own morale.

This kind of guesswork is subject to all the hazards of any such essentially clinical estimates, but with judiciousness and luck it can pay off—and handsomely. For example, the phenomenon of a hitherto lackluster executive suddenly blossoming forth, full of vigor and imagination, is frequently traceable to new working relationships with more compatible and inspiring associates. (Some people, incidentally, are more compatible with a goader than with an admirer.)

The basic principle is much the same as that involved in assaying "company personalities"—namely, in trying to match a man to a job, consider the psychological environment in which he would be working. Doing so can help to cut down on the number of executives who seem to have all the qualifications but never quite work out on the job.

Compensating the Manager Overseas

(*Continued from page 26*)

Compared with the simplicity of relying on the index maintained by the Department of State, the task of constructing a company index appears extremely complex. Actually, however, the problems are no greater for an experienced person than many of the legal or accounting problems that are dealt with in the normal course of business.

Moreover, the advantages of having a company index outweigh the difficulties involved in establishing one. First of all, it is tailored to the specific needs and personnel policies of the company. Management knows what is being compensated for, since it has determined what is to be included and what omitted. Appropriate weighting can be built in to cover, say, the cost of two servants, or transportation on a given foreign post.

Second, the company index can be adjusted to compensate for any recurring expense that applies to all employees covered, thereby reducing the total number of allowances paid—with obvious savings in administrative time and costs.

Third, knowing how the index was constructed, management can explain it, to the satisfaction of any individual, as a fair and equitable means of establishing a cost-of-living allowance. All in all, a company indexing system usually results in significant savings as well as improved morale among overseas employees.

Income tax adjustments

The problem of income taxes warrants special mention in connection with the cost-of-living allowance. Although it is possible to set up a company index to cover most categories of expenditure (including such items as insurance, savings, and income taxes, which are not normally considered as part of a person's "spendable income"), taxes are probably best dealt with separately. There are at least four possibilities: (1) the type of policy mentioned earlier, which pays the excess over what the employee's tax would have been in the U.S., but ignores any tax advantage; (2) including the tax advantage or disadvantage in establishing the overseas premium; (3) including the tax differential in constructing a company

index; or (4) deducting the equivalent of U.S. taxes from the salary of the overseas employee and picking up his foreign tax tab. Of these, the last has been found the most successful by a number of companies experienced in foreign operations.

Housing allowances

Housing for overseas employees is a persistent problem in overseas operations, partly due to the high standard of housing in the United States and the unwillingness of Americans to accept less when living abroad. Overseas housing comparable to that found in America is difficult to locate and, when found, is likely to be several times more expensive than its U.S. counterpart. Furthermore, the settling-in expenses may be high, and renovation is often necessary to make the house or apartment habitable by an American wife's standards.

There are two types of policies in general use. The first, which for permanent overseas installations is probably the best, is to provide company-owned housing at a cost equivalent to that which the employee would have paid at home. The second is to consider housing as one element of the employee's cost of living and either incorporate the costs in the company index or provide a separate housing allowance to compensate the employee for all or a portion of the excess over the cost of comparable housing in the U.S. A number of companies pay all costs over 15 per cent of salary; others pay some portion, often around three-quarters, in an effort to discourage overly expensive housing.

Education allowances

Nearly every American company operating overseas has found it necessary to make special provision for the primary education of the children of employees. In a few organizations, primarily oil companies, company schools are maintained, but in most cases an allowance is paid to cover all or a large portion of the costs of private tuition in areas where public schooling is considered inadequate or undesirable. In addition to such tuition allowances for primary schooling, many companies pay either all or most of the tuition costs for secondary schooling, and, since secondary schools are sometimes not available locally, pay the cost of transportation

to and from the nearest adequate secondary school. Such policies also frequently provide for round-trip travel costs once during the school year for the child away from home or for a visit by the mother to the school.

FRINGE BENEFITS

In general, fringe benefits for overseas employees are the same as those for their stateside counterparts, although local law abroad may require changes in pension plans. There are, however, two notable differences: (1) The retirement plans of some companies call for earlier retirement for overseas employees, often based on considering each year spent abroad as equivalent to a year and a half in domestic operations; and (2) there is usually a provision for home leave in addition to regular vacations. A fairly standard practice is to provide for a month's home leave for every year spent abroad and to allow such leaves to be taken every two or three years, sometimes at the option of the employee. In all cases, transportation to and from the U.S. is paid for by the companies, and all overseas allowances are usually continued for the period of leave. Providing such home leave is expensive, however, and some companies have considered substituting a special allowance to offset some of the cost.

In total, all these allowances result in making the overseas employment of American managers an expensive undertaking. Although there are no statistics available, the experience of several companies indicates that the average costs of maintaining an American and his family abroad are in the order of two-and-a-half to three-and-a-half times his base salary, excluding stateside administrative costs but including all other costs, such as travel and the shipment of household effects.

It is thus highly important that companies involved in overseas operations take a good look at their present compensation policies to eliminate all possible waste and unnecessary expense. Scaling of premium payments to reflect the degree of hardship in foreign locations, more careful consideration of the question of personal tax differentials, and the development of company cost-of-living indexes are all means by which costs can frequently be reduced without harming relations with the valuable personnel in overseas locations.

LETTERS TO THE EDITOR

Comptroller or Controller?

TO THE EDITOR:

Some years ago (too many, I fear), the distinguished dean of a business school told me that "controller" was the proper form of this title, and spoke to me quite severely when I ventured to prefer the alternate form. Since then the question has nagged at the periphery of my consciousness, and lately I decided it was time to try to settle it, at least in my own mind.

The question may be purely a verbal one, about which debate is rarely fruitful. Or it may be a mere title, a matter that, I have persuaded myself, is rarely important. And yet, the forthright implication of controller is "one who controls," and that implication would seem to offend the proper concept of the office as it now exists. From my experience, however many collateral duties may be assigned to this person, his basic job is to keep accounts and to render accounting statements. In doing so, though he supplies material of control to others, surely he controls (or should control) no activities except those he supervises himself.

In saying this, I use the word "control" in its commonly conceived meaning of exercising directing, guiding, or restraining power, and not in the more esoteric meanings sometimes given it in management literature. The latter, I think, breed confusion. That is why the form "controller" seems dubious to me.

Yet the Oxford English Dictionary (and what higher authority is there?) says flatly and finally that comptroller is a misspelling for controller. And the Encyclopaedia Brittanica gives, as an English example, "controller of the navy." Now, a detailed account of the organization of the English navy, what with admiralties and sea lords, is a little hard to come by; yet it seems plain enough that no controller ever controlled that navy.

The question seems to depend on whether the title is related to the word "count" or the word "counter." The Latin antecedent of "count" is *computare,* to compute. The Latin antecedent of counter is *computare* (when it means one who counts or calculates) or *contra* (when it is the prefix meaning "against").

Now, it would seem simple to conclude that the modern title designates one who counts or calculates, and therefore that "comp" is the apt form. You might say that this form has one complete and one half antecedent on its side.

But not so fast. The OED cannot be ignored. It says that controller derives, via Middle English, from Anglo-French *contrerolleur,* which in its turn came from Old French *contreroller.* In that form, the Latin antecedent would clearly be the prefix *contra,* combined with "roll."

This is further explained by the definition, which declares the controller to be one who keeps a counterroll so as

to check a treasurer or person in charge of accounts. To keep a counterroll to check a treasurer is, of course, a partial (though very limited) statement of the nature of the job, though keeping a counterroll to check a person in charge of accounts scarcely seems to make sense.

The OED further asserts that the first syllable of a "reduced" form, *countrollour,* was etymologically mistaken, circa 1500, for *compt,* thus suggesting comptroller, "a form affected by official scribes." The official scribes, it is plainly implied, should have been heartily ashamed of themselves.

This leaves me, I am afraid, in the pickle of a man convinced against his will. I cannot but rebel at the implication of control. I cannot but regard a counterroll as an inadequate allusion to the job. I am drawn to sympathy with the official scribes, who, if innovaters, were at least the sponsors of an apter title.

And I am the more seduced to this barbarity when I find in a modern French dictionary that *comptabilité* means bookkeeping, accountancy, accounts; and that *compter* means to count, reckon, or number.

Well, he that runs may read—or vice versa. For myself, I shall take my stand with the official scribes and believe that one who keeps accounts (and makes statements of them) is a comptroller rather than a controller.

ALVIN BROWN
New York, N.Y.

Who's Harried?

TO THE EDITOR:

"Can it be that I *like* to suffer?" I began to ask myself. Because I've always enjoyed my job as a company president, and yet, as you know, there has recently been a rash of articles in various publications bemoaning the sad plight of the harried, overworked chief executive. (Interestingly enough, many of my fellow company presidents and I find time to read them.) Congratulations on the article by Auren Uris in your May issue ("The Myth of the Martyred Manager"), which sets the picture straight. I don't think I'm alone in saying that I get a terrific kick out of my job.

ERWIN SUNDERLIN
Akron, Ohio

Traveling Salesmen

TO THE EDITOR:

I suppose the heading for this letter should be "Which Cars Do You Lease," but I couldn't help but be struck by your quote from *Investor's Reader* on page 61 of the May, 1958, issue of THE MANAGEMENT REVIEW.

According to the article, Michael Braude of Emkay, Inc., reports that the average mileage on salesmen's cars has risen month by month since last summer. This rise is attributed to the recession, which has caused salesmen to "work harder, travel further, and put in more calls."

By way of interest, we keep detailed cost and mileage records for our more than 20,000 leased and owned salesmen's cars each month. A quick check into these reports since last summer shows that the mileage pattern for these cars is just about the same as it was last year. Certainly, there is nothing to indicate that there has been any material increase in mileage, nor any other pattern change which corresponds with the beginning of the recession.

We thought you might be interested in this fact and pass it along for what it's worth.

JOHN S. LALLEY
Peterson, Howell & Heather
Baltimore, Md.

All letters to the editor should be signed. The editors will withhold the name of any writer on request.

SURVEY OF BOOKS FOR EXECUTIVES

SALES MANAGEMENT: DECISIONS, POLICIES, AND CASES. By Richard R. Still and Edward W. Cundiff. Prentice-Hall, Inc., Englewood Cliffs, N. J., 1958. 722 pages. $10.00.

*Reviewed by Robert W. Lear**

The sales manager used to be a traveling man who was in charge of getting orders into the plant. To a considerable extent, he operated in an isolated area from the rest of the company and, as long as he made his quota, he was generally left alone. As a rule, he was a successful salesman himself before he was appointed to head the sales department.

Today's sales manager is a marketing manager. His prime function, in large companies at least, is to concentrate on headquarters planning and the appraisal of sales results. He is now responsible for proposing new or re-designed products, endorsing the manufacturing investment in equipment, setting the short- and long-term forecasts that determine production schedules and plant facilities, and establishing complete marketing programs, including training, advertising, promotion, pricing, distribution channels, packaging, publicity, and service. These responsibilities involve him in such specialized matters as market survey techniques, cost accounting practices, organizational theory, personnel evaluation, legal considerations, and budgetary control. Nevertheless, despite his greatly expanded sphere of operations, he still continues to be the one man responsible for seeing that the final sale is made to the customer.

The scope of the marketing management function, both at headquarters and in the field, is skillfully defined and detailed in Richard Still and Edward Cundiff's new book, *Sales Management: Decisions, Policies, and Cases*. The authors show an excellent grasp of the practical problems faced in active sales management. Their phrasing is marketing-oriented, rather than professorial in tone. Fortunately, also, their approach is largely observational, with a minimum of conclusions as to the "best way."

* General Marketing Manager, American-Standard, New York.

This is a textbook; it is not designed for fireside reading by the mature sales executive. In some ways, this is a pity, because many sections bring back the half-forgotten fundamentals of getting an order—a wise reminder to managers who have submerged themselves in the confused welter of staff marketing functionalism. A few of the sections are a sheer delight to read: the introspective portrayal of salesmanship; the tracing of the arduous transition from salesman to manager; the discussions of the chief marketing executive's role in pricing, distribution channel choice, and forecasting.

Perhaps the book's outstanding feature is its unique (to this reviewer, at any rate) combination of the written text and the case study methods of teaching. Each of its four basic parts is followed by from 11 to 20 cases—60 in all. These cases are superbly presented and afford a fine insight into the dilemmas of sales management decision-making. Presented by a skilled teacher or sales training manager, they should spur a far greater understanding of the marketing profession than could be gained from a pure lecture course.

As a result, the book may be heartily recommended to business schools and sales training groups where young men are involved. For those experienced executives who are frequently called upon to speak before sales trainee groups, it can also be an excellent reference source. The authors are to be commended for their thorough work.

Briefer Book Notes

(Please order books directly from publishers)

GENERAL

MANAGEMENT IN A RAPIDLY CHANGING ECONOMY. Edited by Dan H. Fenn, Jr. McGraw-Hill Book Company, Inc., New York, 1958. 339 pages. $5.00. Based on the proceedings of the Harvard Business School's 27th National Business Conference, this volume contains papers and comments by 41 specialists on the influence of social, economic, and technological changes on management. The discussion is grouped around three main areas: the forces that are shaping the future, the basic tools for the manager of tomorrow, and personal planning in an era of change.

MANAGEMENT FOR GROWTH. Edited by Gayton E. Germane. Graduate School of Business, Stanford University, Stanford, Calif., 1957. 126 pages. $4.75. These papers, presented at Stanford's 1956 Transportation Management Program, cover such subjects as the need for executive training, management reorganization, cost control and profit forecasting, diversification, and emergency transportation controls.

ECONOMICS OF AMERICAN INDUSTRY. By E. B. Alderfer and H. E. Michl. McGraw-Hill Book Company, Inc., New York, 1957. Third Edition. 710 pages. $7.00. In this revised edition of a textbook originally published in 1942, the authors have emphasized recent developments in the major American industries. New processes of manufacture, new companies, new products, and recent legislation are analyzed with respect to the changing competitive pattern in each industry and the competitive realignment of all manufacturing. New illustrations, reading lists, and study questions have been added.

THE ADMINISTRATION OF TECHNICAL ASSISTANCE: *Growth in the Americas.* By Philip M. Glick. The University of Chicago Press, Chicago, Ill., 1957. 390 pages. $5.50. A comprehensive study of technical assistance in Latin America. Part I, dealing with the U.S. Point Four Program, covers such aspects as the instruments for effective cooperation, program planning, the foreign technician, and organization at home and overseas. The technical assistance programs of the United Nations and the Organization of American States are described in Part II; Part III examines the relations between the bilateral and multilateral programs as plural efforts toward a common goal.

BUSINESS ENTERPRISE AND THE CITY. By Mabel Walker. Tax Institute, Inc., Princeton, N.J., 1957. 144 pages. $3.00. A collection of articles from *Tax Policy* on current developments in business location. The decentralization of manufacturing, the impact of industrial location on population patterns and government finance, trends in office location, the role of the state in industrial development, and modern merchandising and municipal finance are among the subjects examined.

THE AMERICAN STOCKHOLDER. By J. A. Livingston. J. B. Lippincott Company, New York, 1958. 290 pages. $4.95. In the author's words, this is "an examination of the who, what, why, where, and how of 8,600,000 American shareholders." Among the topics discussed are stockholders' rights, corporate democracy, the care and feeding of stockholders, stockholder relations, stockholder organizations, proxy battles, and regulation by the SEC.

KILOWATTS AT WORK: *A History of the Detroit Edison Company.* By Raymond C. Miller. Wayne State University Press, Detroit, Mich., 1957. 468 pages. $7.50. This comprehensive history of Detroit Edison focuses on the role of the large corporation in modern society. Although the chapters on electrical production—technological changes, its financial and administrative control, and its impact on society—may be of somewhat limited interest to those outside the field, the book contains some interesting general material on the problems of business management and the company's relations with labor and the community at large.

HIGH MANAGEMENT CONTROL. By T. G. Rose and Donald E. Farr. McGraw-Hill Book Company, Inc., New York, 1957. 290 pages. $6.50. Here the authors offer a new method of management control for the business executive. A complete set of the forms needed to gather and present the control data is provided. The fundamentals of management control, the control in action, and the value of the method are discussed in detail.

FINANCIAL

INTERNATIONAL FINANCE. By Charles N. Henning. Harper & Brothers, New York, 1958. 481 pages. $10.00. Combining the institutional and analytic approaches, this textbook examines the practices, theory, and problems of international finance. It features a thorough coverage of the balance of payments, and discusses such postwar problems as dollar shortages, Marshall Plan and ICA financing, "floating" exchange rates, implicit rates, and export retention quotas. More than 100 forms currently used by leading banks are reproduced.

MATHEMATICS OF FINANCE. By T. Hoyle Lee. Richard D. Irwin, Inc., Homewood, Ill., 1957. 335 pages. $7.20. A textbook on the mathematics of finance designed for the business student. Emphasis is placed on the basic principles underlying financial transactions, and the use of line diagrams and the equation of value rather than many formulas. The topics treated include simple interest and bank discount, compound interest, logarithms, annuities, amortization capitalized cost, life annuities, and insurance.

TAX PLANNING UNDER THE NEW REGULATIONS: *14 Analyses Showing How to Minimize Taxes Today*. The Journal of Taxation, Inc., 147 East 50 Street, New York 22, N.Y., 1957. 194 pages. $4.95. These papers, presented at the Third Annual Institute of Taxation of the Texas Society of Certified Public Accountants, cover recent tax developments in such fields as stock options, dividend distributions, net operating losses, accounting methods, real estate, and trusts. Also included are papers on new partnership regulations, life insurance, and annuities.

COMMON STOCK FINANCING. By Harold W. Stevenson. Bureau of Business Research, University of Michigan, Ann Arbor, Mich., 1957. 152 pages. $4.00. A study of the various methods of common stock offering used by companies in 1955. The author discusses considerations and decisions in new offerings, privileged subscription offerings, public offerings, and the costs and results of each method.

DICTIONARY FOR ACCOUNTANTS. By Eric L. Kohler. Prentice-Hall, Inc., Englewood Cliffs, N.J., 1957. 515 pages. $10.00. In this revised edition of a dictionary originally published in 1952, the definitions have been expanded and modified to conform with current usage. Among the areas covered are accounting, insurance, taxation, statistics, economics, mathematics, and business.

WHOLE-DOLLAR ACCOUNTING. By Florence A. May and Herbert F. Klingman. Controllership Foundation, Inc., 2 Park Avenue, New York 16, N.Y., 1957. 335 pages. $7.50. This research report contains 13 case studies of companies using whole-dollar accounting systems, as well as an appraisal of the method. Selected source materials and relevant government regulations are appended.

ACCOUNTING AND THE ANALYSIS OF FINANCIAL DATA. By Edison E. Easton and Byron L. Newton. McGraw-Hill Book Company, Inc., New York, 1958. 449 pages. $7.00. An elementary textbook for the nonaccount-

ing student that stresses the analysis of financial statements, cost accounting, income taxes, and budgeting, rather than bookkeeping procedures. The fundamentals of accounting, special areas of accounting, and the analysis of financial data are presented in detail.

DICTIONARY OF BUSINESS AND FINANCE. By Donald T. Clark and Bert A. Gottfried. Thomas Y. Crowell Company, New York, 1957. 409 pages. $6.95. A reference tool for businessmen, this dictionary covers such fields as accounting, advertising, banking, export, finance, insurance, labor, law, merchandising, personnel, purchasing, real estate, shipping, statistics, the stock market, traffic, and work measurement. Examples are taken from current business practice.

ACCOUNTING GUIDE FOR DEFENSE CONTRACTS. By Paul M. Trueger. Commerce Clearing House, Inc., New York, 1958. Second edition. 464 pages. $12.50. This new edition of an accounting handbook originally published in 1953 has been revised in line with current government contract requirements. It deals with such problems as stretch-outs, terminations and cut-backs of production contracts, and public vouchers under cost-fee contracts, and outlines what the government expects in cost accounting records and its position on allowable and unallowable items. Special government manuals, regulations, and forms are appended.

OVERHEAD COSTING: *The Costing of Manufactured Products*. By R. Lee Brummet. Bureau of Business Research, University of Michigan, Ann Arbor, Mich., 1957. 157 pages. $5.00. A Michigan Business Study monograph on the problem of assigning overhead costs to manufactured products. The author examines various concepts of product overhead costing based on different objectives: income determination, financial accounting, planning for net income, pricing decisions, and cost control. This work should be of interest to business managers as well as accountants.

BLUEPRINTING TOMORROW'S PROFITS. Controllers Institute of America, 2 Park Avenue, New York 16, N.Y., 1957. 64 pages. $1.00. A collection of papers presented at the Institute's 26th annual conference. Among the topics discussed are the controller's role in long-term planning, conducting operations research with existing personnel, product profit maximization, and management planning and control at Minnesota Mining & Manufacturing Company.

PROCEEDINGS OF THE NINETEENTH ANNUAL INSTITUTE ON ACCOUNTING. The Bureau of Business Research, Ohio State University, Columbus, Ohio, 1957. 149 pages. Gratis. The papers in these conference proceedings are concerned with data processing, education for accounting and business, financial reporting and the tax laws, and the organization and operation of a government corporation.

REVOLVING CREDIT: *Business Management Survey No. 6*. By Robert H. Cole. Bureau of Business Management, College of Commerce and Business Administration, University of Illinois, Urbana, Ill., 1957. 69 pages. $1.00. An essay on the development of revolving credit, the risks it involves, and its future outlook. Includes the findings of the author's study of experiences with this type of credit in some 250 retail stores in Illinois.

XU